THE NATIONAL SURFACE TRANSPORTATION POLICY AND REVENUE STUDY COMMISSION REPORT: “TRANSPORTATION FOR TOMORROW”

(110–91)

HEARING

BEFORE THE

COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS

SECOND SESSION

JANUARY 17, 2008

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January 15, 2008

<u>SUMMARY OF SUBJECT MATTER</u>

TO: Members of the Committee on Transportation and Infrastructure

FROM: Subcommittee on Highways and Transit Staff and the Subcommittee on Railroads, Pipelines, and Hazardous Materials Staff

SUBJECT: Hearing on the National Surface Transportation Policy and Revenue Study Commission Report: "*Transportation for Tomorrow*"

PURPOSE OF HEARING

The Committee on Transportation and Infrastructure is scheduled to meet on Thursday, January 17, 2008, at 11:00 a.m., to receive testimony from members of the National Surface Transportation Policy and Revenue Study Commission regarding the Commission's recommendations on preserving and enhancing the nation's intermodal surface transportation system to meet future mobility, economic and quality of life needs.

BACKGROUND

Congress established the National Surface Transportation Policy and Revenue Study Commission ("Commission") in Section 1909 of the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users ("SAFETEA-LU"). In establishing the Commission, Congress charged it with forecasting the surface transportation system necessary to support our economy 50 years in the future. The analysis is anticipated to enable lawmakers to establish long-term goals regarding the transformation of the surface transportation system, and to move beyond simply making changes at the margins to the existing system. It was also hoped that the Commission's recommendations would help Congress formulate short-, medium-, and long-term strategies necessary to achieve these goals, as well as mechanisms to finance the investments necessary to meet these goals. It was Congressional intent that the Commission's report would aid efforts to develop a surface transportation system that will support our nation's economic competitiveness, growing population, and improve quality of life.

Congress provided the Commission a very broad mandate to: (1) project the expected demographics and business uses that will impact the surface transportation system 15, 30, and 50 years in the future; (2) determine the expected uses of our surface transportation system in the same timeframes to support a strong and competitive economy, including recommendations regarding design and operational standards, Federal policies, and legislative changes; and (3) develop short-term and long-term alternatives to supplement or replace the Federal fuel excise taxes as the principal revenue source to support the Federal Highway Trust Fund.

Chaired by the Secretary of the U.S. Department of Transportation, the Commission is comprised of 12 members. The Commission includes eight Republican appointees and four Democratic appointees. President Bush appointed four members, including the Secretary of Transportation. Then-Speaker Hastert, then-Minority Leader Pelosi, then-Majority Leader Frist, and then-Minority Leader Reid each appointed two members of the Commission. The Commissioners represent Federal, state and local governments; metropolitan planning organizations; transportation-related industries; and public interest organizations.

Since May 2006, the Commission has met 22 times to hear about the challenges facing America's surface transportation network. Throughout this process, the Commissioners have heard testimony from national transportation advocates, policymakers, industry, labor, and from the general public. The Commission held ten field hearings around the country, where the Commissioners heard testimony from 231 witnesses. The Commission also met 12 times in Washington, D.C., where they heard testimony from 62 witnesses.

Throughout this process of hearings and public meetings, the Commission determined that several themes emerged:

1. The Federal government needs to play a continued role in the nation's transportation system. The Federal role must be focused on core activities, and Federal regulations need to be reformed to deliver projects more efficiently.

2. Far greater surface transportation investment is necessary by all levels of government and the private sector.

3. Structural changes must occur in the program to address metropolitan and freight congestion.

COMMISSION RECOMMENDATIONS

The Commission's report, which is supported by 9 of the 12 Commissioners, concludes that incremental changes to the existing Federal surface transportation system are no longer acceptable. The Commission recommends a "new beginning," and expresses concerns with reauthorizing the Federal surface transportation program in its current form. This conclusion is based on the finding that the nation is outgrowing the current surface transportation system, threatening passenger and freight mobility and economic competitiveness. It is also based on the conclusion that the program has lacked a national vision and purpose since the completion of the Interstate System, which has undermined the public's understanding of the importance of continued surface transportation investment.

The new Federal compact the Commission envisions includes:

- A strong Federal role in surface transportation;
- Increased expenditures from all levels of government and the private sector;
- A commitment to the more effective use of tax dollars;
- Federal funding that is conditioned on performance measures and cost effectiveness; and
- Program reform to eliminate waste and delays in program delivery.

SURFACE TRANSPORTATION NEEDS ANALYSIS AND INVESTMENT GAP

The Commission report identifies a significant surface transportation investment gap, and calls for an annual investment level of between $225 and $340 billion—by all levels of government and the private sector—over the next 50 years to upgrade all modes of surface transportation (highways, bridges, public transit, freight rail and intercity passenger rail) to a state of good repair. The current the annual capital investment from all sources in all modes of transportation is $85 billion.

Currently, $68 billion is invested annually in capital improvements to Federal-aid **highways and bridges**. According to the analysis in the report's base case scenario, sustaining this rate of investment (in constant 2006 dollars) over an extended period of time would lead to significant deterioration in system operational performance and physical condition. The Commission's highways base case analysis found that:

- Delays experienced by travelers on principle arterial highways to increase by one-fifth by 2020, by one-half by 2035, and double by 2050.
- The situation would be more acute in urban areas where delays are projected to grow by over one-half by 2020, more than double by 2035, and quadruple by 2055.
- The percentage of vehicles miles traveled occurring on National Highway System roadways that meet U.S. DOT's standard for "acceptable" ride quality would decline from approximately 85 percent in 2005 to just below 60 percent in 2055.

Currently, **transit** capital investment from all sources is approximately $13 billion annually. The Commission's base case transit analysis found that if the current level of transit capital investment is maintained (in constant 2006 dollars), without significant changes to the current institutional structure, transit ridership would grow due to growth in population, however, transit's marketshare and the overall condition of transit assets would decline over time.

With regard to **freight rail**, if the forecast of Global Insight, Inc.'s economic output of the U.S. is correct and total freight movement increases 92 percent over the next 30 years, the performance of our nation's freight rail system will degrade significantly if it maintains its current market share unless there are expansions to the capacity of the system. For example, currently 88 percent of primary freight rail currently operates at levels below its theoretical capacity, meaning there is sufficient capacity to accommodate periodic maintenance activities and to recover from incidents that interfere with routine operations. Further, nine percent operates near its theoretical capacity and three percent operates at its theoretical capacity limit, meaning there is limited ability to accommodate maintenance needs or accommodate incidents.

However, if there is no additional capacity added by 2035, the Commission projects that the percentage of rail corridors operating below capacity would decline to 44 percent and corridors operating at capacity would increase to 15 percent and corridors operating above their theoretical capacity would increase to 30 percent, which is characterized by unstable flows and service breakdown conditions. This situation would be experienced in terms of routine service interruptions and a constant questionability of product delivery.

In identifying the long-term capital investment needs, the Commission's analysis developed a number of scenarios to determine the investment levels necessary to maintain or improve the operating performance and condition of the current surface transportation network. As noted above, the report calls for a total investment level from all sources in the range of $225 billion to $340 billion annually. The report analysis specifies average annual investment levels over the 50-year period 2005-2055 of:

- $185 billion to $276 billion annually for highways;
- $26 billion to $46 billion for public transportation;
- $5.3 billion to $7.7 billion for freight rail; and
- $7.4 billion to $10.6 billion for intercity passenger rail.

The highway investment scenarios analyzed in the report range from the estimated costs of maintaining current condition and performance levels, to more aggressive investment strategies designed to reflect the impact of maximum levels of cost-beneficial investments. The low end of the range assumes aggressive strategies to reduce energy consumption and travel demand, as well as implementation of new technologies to improve operational performance. A key aspect of this analysis is the extent of peak-hour congestion pricing in urban areas. The high end of the range assumes aggressive expansion of the highway system capacity, including efforts to improve rural connectivity and separate freight and passenger traffic.

For public transportation, the low end of the scenario range represents the estimated cost of maintaining the current level of condition and operating performance. The high end of the range represents the estimated cost of improving the current level of conditions and operating performance while accommodating significantly higher levels of transit ridership and market-share.

The Commission's freight rail investment analysis finds that the annual funding level necessary to maintain freight rail's market share would be approximately $5.3 billion a year through 2035. The Commission projects that the average cost will increase to $5.7 billion a year between 2035 and 2055, reflecting the assumption that less expensive capacity improvement options will be exhausted by 2035, leaving only the more expensive options of adding second, third, or fourth tracks. The high end of the range, $7.7 billion a year, assumes increasing rail's market share 20 percent, which would require 34 percent additional rail capacity investment over the same time period.

For intercity passenger rail, the Commission projects that re-establishing the national intercity passenger rail network between now and 2050 would cost $357.2 billion in capital expenses, for an annualized cost of $8.1 billion. However, the range of costs reflects different periods of intercity passenger rail needs. The immediate annual capital costs from 2007 to 2015 are $7.4 billion a year, reflecting limited new services coming online along with upgrading existing rail service. From 2016 to 2030, the Commission projects the majority of new services will be coming online and further upgrades will be required for existing rail service that will reflect the high end of the range at $10.6 billion a year. Finally, the low end of the range reflects the long-term capital cost needs from 2031 to 2050 of $6.6 billion a year.

PROGRAMMATIC RESTRUCTURING TO ADVANCE TO THE NATIONAL INTEREST

To address the concern over the lack of a national vision, the Commission recommends condensing the numerous existing Federal surface transportation programs down to ten areas of Federal interests. These ten focus areas are based on a desired outcome, as opposed to the current modal organization of the surface transportation system. DOT, in conjunction with state and local governments, multi-state coalitions, users, and public and private stakeholders, would establish a set of performance standards in each of these areas. The approach would be mode neutral, and would allow local and state governments to choose the modal options best suited to achieve the outcomes required to meet its performance standards. The Commission calls for the U.S. DOT to be reorganized to reflect these functional areas, instead of the various modal administrations that currently exist

The ten functional program areas that the Commission recommends are:

- **Rebuilding America: A National Asset Management Program**
  This program aims to keep America's existing infrastructure properly maintained in an efficient and cost-effective manner. It would focus on the Interstate system, the NHS, transit assets, intercity passenger and freight rail, and intermodal connectors, all areas the Commission identified as having a strong Federal interest. State and local governments would be required to have a program of asset maintenance that conforms to national standards.

- **Freight Transportation: A Program to Enhance Global Competitiveness**
  This program would provide public investment in crucial, high-cost infrastructure on the Federal-aid highway system, with a focus on the Interstate System and the NHS. It would also include public-private partnerships that have the potential for national and regional benefits, including facilitating international trade, relieving congestion, and creating intermodal connections around ports.

- **Congestion Relief: A Program of Improved Metropolitan Mobility**
  This program would aim to reduce congestion in metropolitan areas of one million or more in population. The report notes that this would involve substantial capital investment and require comprehensive local strategies. Projects under this program would include demand management initiatives such as congestion pricing, improved operations, increased transit capacity and ridership, and expanded highway capacity.

- **Saving Lives: A National Safe Mobility Program**

This program would create a national plan for safety that would inform investment decisions in all surface transportation programs and would create new safety initiatives as well. DOT would develop the national strategy, and the Commission recommends a goal of cutting surface transportation fatalities in half by the year 2025. States and metropolitan areas would be responsible for developing broad strategies to reach their specific goals across all modes.

- **Connecting America: A National Access Program for Smaller Cities and Rural Areas**
  This program aims to bring surface transportation connections to the rural and urban areas that were not developed when past highway and rail networks were created. The program goal is to create high-performing connections for freight and passengers in these underserved areas.

- **Intercity Passenger Rail: A Program to Serve High-Growth Corridors By Rail**
  The Commission views intercity passenger rail as a critical missing link in the nation's surface transportation infrastructure. This program would create an intercity passenger rail service that primarily connects population centers within 500 miles of each other and provides competitive, reliable, and frequent service. This would include investment to support capacity and performance requirements for both passenger and freight service, and the development and expansion of rights-of-way that would allow for separate passenger and freight operations.

- **Environmental Stewardship: Transportation Investment Program to Support a Healthy Environment**
  The Commission recommends investing 7 percent of the total Federal surface transportation investment in environmental stewardship. This program would give more flexibility to the states in their efforts to mitigate congestion, and would have specific emphasis on four broad categories: air quality, including smoother traffic flow, intermodal freight options, and encouraging carpooling and transit; vehicle retrofit; transportation enhancements; and programmatic mitigation, including banking both money and land to preserve endangered habitats. Ten percent of the program funds would be spent on each of the four categories, with the remaining 60 percent for the state's discretion.

- **Energy Security: A Program to Accelerate the Development of Environmentally-Friendly Replacement Fuels**
  This program calls for investing $200 million per year over the next decade into transportation energy research and development in conjunction with ongoing research being conducted by the U.S. Department of Energy.

- **Federal Lands: A Program for Providing Public Access**
  This program would continue the Federal government's role in providing transportation access to Federal lands. The goal of this program is to alleviate the pressure on Federal lands coming from increased tourism and urban growth in nearby areas.

- **Research, Development, and Technology: A Coherent Transportation Research Program for the Nation**
  This program would monitor research efforts across America and internationally, and would target funds to research gaps. It would also invest in robust, predictable data collection and performance modeling.

The Commission does not envision that these programs would operate independently of one another. Because individual projects may contribute to achieving performance goals in multiple functional programs, the Commission believes that coordination of planning activities required for each program will be essential.

The current surface transportation program requires state and local governments to undertake a comprehensive public planning process, which should consider land use, development, safety, and security issues, to develop a plan to meet the region's transportation goals. The Commission's recommendations would differ in that the plans called for in the report would have to be developed to meet specific performance standards, and major projects identified in the report would have to be shown to be cost-beneficial. The Commission recommends that planning activities continue to be funded through a percentage of the total authorized funding for the Federal surface transportation program. These plans would be designed to meet national performance goals, and would serve as the basis for apportioning funds to the States on a "cost-to-complete" basis consistent with a national strategic plan compiled by the U.S. DOT.

NATIONAL SURFACE TRANSPORTATION COMMISSION ("NASTRAC")

In addition to these 10 functional programs, the Commission recommends the creation of an independent NASTRAC, modeled after the Postal Regulatory Commission, the Base Closure and Realignment Commission, and public utility commissions. The bipartisan, 10-member Commission would work with U.S. DOT, state and local officials, and stakeholders to develop performance standards in the 10 focus areas. These performance standards, and the plans developed to achieve these standards, would be the basis for the national transportation strategic plan.

From this national transportation strategic plan, NASTRAC would determine the cost of financing the plan and would recommend "appropriate revenue adjustments" to Congress to implement the national transportation strategic plan. The NASTRAC recommendations would come before Congress and could be struck down by a two-thirds veto. If no actions were taken, the recommendations would become law, and no amendments would be permitted.

PROJECT DELIVERY

The Commission's report outlines several recommendations to streamline the delivery of transportation projects. The core of these recommendations revolve around the need to expedite the permit process within Federal agencies and to reduce redundancies in the National Environmental Policy Act (NEPA) Process, which requires environmental impact studies (EISs) to be performed for major Federal actions that significantly effect the environment.

To improve the NEPA process, the Commission recommends several reforms:

- Simplified NEPA process for projects with few significant impacts similar to the "1040 EZ tax return."
- Revise the Council on Environmental Quality (CEQ) regulations to allow a single EIS in the NEPA Process rather than the current requirement for a draft and final EIS.
- Revise CEQ regulations to narrow the number of "reasonable alternatives" based on project-level decision, community values, and funding realities.
- Make changes to the early planning process, such as handling impact identification and mitigation issues early in the planning process in an integrated fashion.
- Encourage the Federal Highway Administration to set minimum conditions to determine general project location, modal choice, and develop a risk management plan during the scoping period.
- Finally, the "risk design" approach should be standardized so that project sponsors can begin design activities at risk during the EIS process.

The Commission also recommended improvements to expedite the permit process. Greater coordination requirements among Federal agencies should be implemented, including setting time limits for review of permits, using federal transportation funds to pay for regulatory staff to speed reviews, and establishing a cabinet-level appeal process where U.S. DOT can seek redress for adverse decisions.

Several of these recommendations were addressed in SAFETEA-LU. Under the environmental review process, the lead federal agency is provided an opportunity to define the project's purpose, need, and establish alternatives as early as practicable in the process. Additionally, to limit delays to projects, Congress must be notified of any delays greater than thirty days, and a 180-day statute of limitation was imposed for lawsuits challenging Federal agency approvals.

GENERATING THE REVENUES NECESSARY TO IMPLEMENT THE PLAN

The Commission report found that a significant increase in investments will be required by all levels of government and the private sector to develop, construct and maintain the transportation system necessary to meet the Nation's current and future passenger and freight mobility and access needs. The report found that the annual investment requirement to improve the condition and performance of all modes of surface transportation—highways, bridges, public transit, freight rail and intercity passenger rail—ranges between $225 and $340 billion by all levels of government and the private sector.

To generate the revenue to achieve this level of investment, the Commission recommends increasing the Federal motor fuel excise tax by between 25 and 40 cents per gallon to achieve this investment target with the traditional Federal share of 40 percent of total transportation capital costs. The report also recommends that any rate increase be indexed to inflation and/or construction material costs, and phased in over five years.

The Commission calls for the motor fuel excise tax to be the primary recommended user fee because the excise tax will continue to be a viable revenue source for surface transportation at least through 2025. The report calls for the identification of an alternative user-based revenue source to be phased in beyond the 2025 timeframe. The Commissioners believe that a vehicle miles traveled fee is a promising alternative revenue source, provided that substantial privacy and collection cost issues can be addressed.

Under the Commission's recommendations, a restructured and renamed Highway Trust Fund ("HTF") would be retained—the Surface Transportation Trust Fund ("STTF"). The STTF revenue would be dedicated to surface transportation investment, and would retain many aspects and structural features of the HTF, such as budgetary firewalls, and Revenue Aligned Budget Authority ("RABA").

The Commission also recommends establishing other user-based fees to assist in meeting the investment shortfall, such as designating a portion of current Customs duties or imposing a container fees for freight projects, and/or creating ticket taxes for passenger rail and public transportation improvements. They also call for tax incentives to expand intermodal networks; and recommend increased utilization of "congestion pricing" on Federal-aid highways in major metropolitan areas and expanded flexibility for tolling the Interstate, as long as these alternatives protect the public interest and the revenues generated are restricted to transportation purposes in the travel corridors where the fees are imposed. The report also calls for encouraging public-private partnerships provided that conditions are included to protect the public interest and the movement of interstate commerce.

COMMENTS FROM COMMISSIONERS NOT SUPPORTING THE COMMISSION'S FINAL RECOMMENDATIONS

Three members of the Commission, including Commission Chair Secretary of Transportation Mary Peters, did not support the report's recommendations. This minority cites the decline in system performance and the politicization of investment decisions as today's most pressing transportation problems, and recommends using the principle of supply and demand to solve them. They assert that congestion and system unreliability will worsen if we continue to rely on a "Federal-centric tax-based financing and regulatory system" that does not give enough control to State and local governments.

The minority recommends sustaining current motor fuel and diesel excise levels, while shifting more financial responsibility to private sector investors and the public as a whole through increased tolling, congestion pricing, and public-private partnerships. They also recommend a Federal role that is limited to maintaining the Interstate System, alleviating freight-related bottlenecks, and providing States with analysis, incentives, and flexibility regarding the adoption of market-based reforms for their highway systems.

Though the minority finds several areas of agreement with the majority's findings—such as the importance of the transportation system, the need for sustained investment, opportunities for simplification, consolidation, and streamlining of Federal programs, and the need for greater accountability and rationality in investment decisions—they generally disagree with the Commission's conclusions and recommendations. The minority's disagreements with the report are summarized in seven points:

1) The minority argues that Federal fuel taxes are not a solution to our surface transportation problems, and are ineffective, wasteful and regressive. They assert that the majority fails to adequately consider alternatives such as direct pricing. The Commission does envision replacing the fuel tax with a more direct user fee, such as vehicle miles traveled fee, in the year 2025, however, the minority would prefer this transition take place much sooner.

2) The minority characterizes the Commission's vision of the Federal role in a national transportation system as "unnecessarily large."

3) The minority disputes the definition of "needs" that the Commission used to estimate fuel tax calculations. They contend that there are far fewer transportation investments that are justifiable on a cost analysis basis than the report suggests.

4) The minority calls the Commission's proposal to create an independent governance commission ("NASTRAC") to oversee a national transportation plan "neither practical nor good policy."

5) The minority disagrees with the Commission's proposals to limit congestion pricing of Interstate highways to metropolitan areas of 1 million or more in population, and to restrict the use of toll and lease revenues to the facility being tolled or leased or to roads or facilities within the same corridor or network.

6) The minority suggests that the Commission takes an inconsistent approach to earmarking by recognizing the inefficiencies of earmarking while, at the same time, recommending that certain percentages of transportation funding be set aside for purposes outlined in the report.

7) The minority argues that the energy research and investment recommendations are more appropriately left to the Department of Energy.

PREVIOUS COMMITTEE ACTION

The Subcommittee on Highways and Transit held a hearing on January 24, 2007, regarding the nation's surface transportation system and the challenges and changes it will face 30 to 50 years into the future, as well as to examine how the system will need to adapt to support the changing and expanding economy.

The Subcommittee on Railroads, Pipelines, and Hazardous Materials met to hear testimony on the Benefits of Intercity Passenger Rail on June 26, 2007.

The Full Committee on Transportation and Infrastructure met on September 25th, 2007, to hear testimony on Rail Competition and Service.

WITNESS LIST

Chair, The Honorable Mary Peters *(Invited)*
Secretary
U.S. Department of Transportation
Washington, DC

Vice Chair Jack Schenendorf
Of Counsel
Covington & Burling
Washington, DC

Commissioner Frank Busalacchi
Wisconsin Department of Transportation
Madison, WI

Commissioner Maria Cino *(Invited)*
Former Deputy Secretary of Transportation
Washington, DC

Commissioner Raymond R. Geddes *(Invited)*
Director of Undergraduate Studies
Cornell University Dept. of Policy Analysis and Management
Ithaca, NY

Commissioner Steve Heminger
Executive Director
Metropolitan Transportation Commission
Oakland, CA

Commissioner Frank McArdle
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HEARING ON THE NATIONAL SURFACE TRANSPORTATION POLICY AND REVENUE STUDY COMMISSION REPORT: TRANSPORTATION FOR TOMORROW

Thursday, January 17, 2008

HOUSE OF REPRESENTATIVES,
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE,
Washington, DC.

The Committee met, pursuant to call, at 11:00 a.m., in Room 2167, Rayburn House Office Building, the Honorable James L. Oberstar [Chairman of the Committee] presiding.

Mr. OBERSTAR. The Committee on Transportation and Infrastructure will come to order.

Over the last 115 years, there have been 4 transformational moments, episodes, in the history and evolution of surface transportation policy in America. The first was 1894 when a group of bicyclists gathered 150,000 signatures on a wheel and presented them to a Committee of Congress in the House, asking for a $10,000 study for a system of paved roads to take the newfangled horseless carriages off the bicycle trails, which were creating ruts and causing cyclists to have faceplants or headers as they called them in those days.

Congress complied. The study was completed and led to the next episode which was the establishment of the Bureau of Road Inquiry in 1896 in the U.S. Department of Agriculture, leading to the creation of the Bureau of Public Roads in 1916.

The third transformational episode was 1956, the establishment, enactment of the interstate highway, the National System of Interstate and Defense Highways and the Highway Trust Fund with a dedicated revenue stream to sustain the construction of this extraordinary facility.

The fourth transformational moment was 1991 at the end of the interstate era and the beginning of the post-interstate period, the enactment of the Intermodal Surface Transportation Efficiency Act.

This Commission's report will, in time, be seen as I see it now as the first transformational chapter in the transition to a new era of transportation policy for the 21st Century. The report does precisely what commissions should do: lift our vision above the horizon, challenge our thought processes with innovative ways of addressing established vexing, complex problems that appear to be irreconcilable.

The report goes further. It sets forth specifics on how to accomplish, how to carry out their recommendations.

It remains for us in the public policy arena in the Executive Branch and the Legislative Branch to summon up the political will to act upon this compendium of proposals in order to transform America's transportation portfolio into a vibrant, sustainable engine of economic growth underpinning and enhancing the greatest economy in the world.

Thank you for your splendid work, for your intense effort and for this purposeful report.

I yield to the Ranking Member, and I will announce that we will have statements from Mr. DeFazio subsequently and from Mr. Duncan. Then we will proceed to the Commission because we are here to hear them, not to hear one another.

Mr. MICA. Well, I thank Chairman Oberstar for his opening statements and for yielding time. I have a rather lengthy statement that I would have included in the record.

Mr. OBERSTAR. Without objection, it will be included in the record.

Mr. MICA. It is unfortunate, but Secretary Peters, our Secretary of Transportation, will not attend or participate in today's hearing or provide her testimony. I don't want to get into the dispute on her having her own panel, which has been accorded to cabinet members of various administrations. But, in any event, I would like to ask unanimous consent to submit Secretary Peters' statement for the record.

Mr. OBERSTAR. The Secretary's statement will be included in the record, without objection.

Mr. MICA. Thank you.

Mr. MICA. I want to also reiterate the comments of the Chair in thanking the Commission for their service and also for your vision in trying to develop a blueprint for our Nation's infrastructure not only in the short term but in the long term. I have had an opportunity to read through your recommendations, and I think it can serve as a template for the investment in our Nation's infrastructure that is so urgently needed.

I think you have done an incredible job in assessing the need. You have correctly assessed the need. We are probably looking at a requirement for investing three to four times what we are investing now in our Nation's highways, rail, ports, airports, all of our infrastructure.

I believe that you have provided us with some options by which we can expand the investment and some of those will be measures that Congress must consider, particularly as we head towards 2009 and reauthorizing our surface transportation programs.

Some of the areas of agreement are indexing, better leveraging our existing funds through creative financing and bonding, and public-private partnerships. One of the things Congress has failed to do is establish clear Federal policy on public-private partnerships. This is a term that requires definition so that we can move forward and use public-private partnerships as an important element in expanding the dollars that we have available.

You have also identified a need of trying to expedite the project delivery process. Improving this process is so important in saving us not only time but money, and I would like to see what I call a 437 day process adopted at least for projects that are replacement in nature such as the bridge that collapsed in Minnesota. A project that would otherwise take some 7 to 8 years and many times the cost to complete will be completed in 437 days. Again, I think a recommendation of your Commission is that we expedite the project delivery process.

I do have some concerns with the report, of course, and maybe you have heard my comments when the report first came out and proposed a potentially 40 cent increase which would be about a 200 percent increase in the gas tax. I did have my reservations. The press asked me what I thought the chances were of something like that passing Congress, and I think my comment was that it has a snowball's chance in hell.

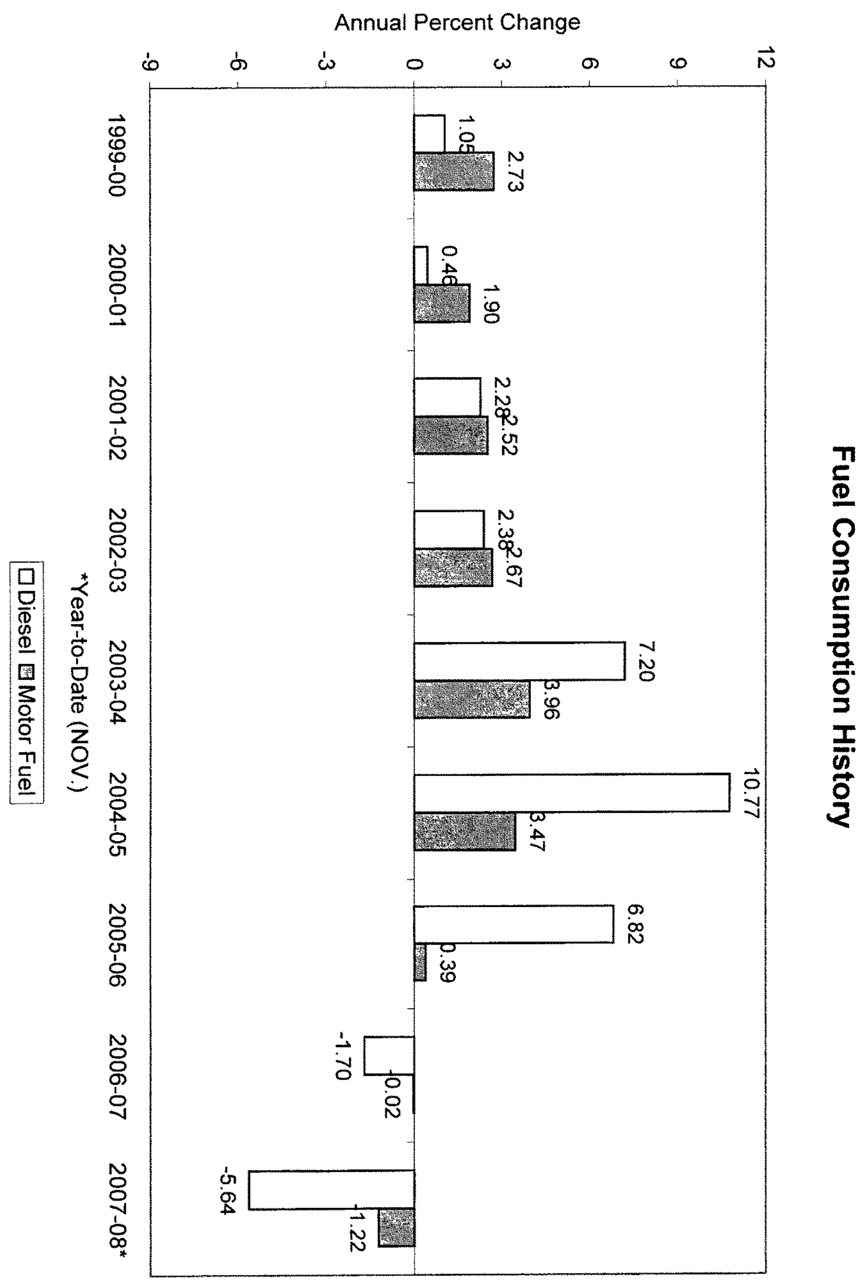
I did notice that there was quite a bit of snow coming down and the temperature had dropped precipitously as we began the hearing, but I still wouldn't give it a much better chance.

[Laughter.]

Mr. MICA. I believe that using some of the mechanisms and the options that you outlined, though, that we can adjust those figures. I don't believe—and share the dissenting opinion—that just increasing the gas tax is the answer, and I don't think that was your solution.

My Secretary of Transportation in Florida provided me with a chart that is up on the screen, that shows how dramatic fuel consumption has decreased, and that chart dramatically illustrates the challenge that we face.

[Information follows:]



Fuel Consumption History
Annual Percent Change
12
9
6
3
0
-3
-6
-9
1999-00
2000-01
2001-02
2002-03
2003-04
2004-05
2005-06
2006-07
2007-08*
1.05
2.73
0.46
1.90
2.28
2.52
2.38
2.67
7.20
3.96
10.77
3.47
6.82
0.39
-1.70
-0.02
-5.64
-1.22
*Year-to-Date (NOV.)
Diesel
Motor Fuel

Mr. MICA. We have nine million vehicles now using some alternative fuels. Congress has passed a requirement that we double some of the synthetic fuels, and I think even the marketplace will hasten what we see here.

So, even if we increase the gasoline tax by a dollar or 100 percent, it is not going to resolve our problem nor sometimes things that need to have the right political climate nor with $3 plus a gallon of gas currently at the pumps will we see that proposal pass in Congress as some may advocate.

I think consolidation of the 108 surface transportation programs is also a worthy goal that has been recommended. However, I would caution any elimination of mass transit as a separate program. I think that mass transit is one of the solutions, and it shouldn't be sidelined.

For the future of our Nation I believe that we might just as well start now with your proposal. In the next few days and weeks, we will hear proposals for stimulating our economy which is lagging.

I would hope and ask Mr. Oberstar and others on the Committee that building our Nation's infrastructure be an investment that we look at on a joint basis because rather than sending folks a check of a few hundred dollars for which they will go out and probably buy some more imported goods, we could be investing in our Nation's infrastructure, and I would hope that that would be a key component, that we build on some of the recommendations not in September 2009, but now.

So I would propose, finally, that we take your good blueprint and the items we can agree on in investment in infrastructure and use that as part of an economic stimulus package.

So, with those comments, Mr. Chairman, I am pleased to hear the members of the Commission and their report to us today. I yield back.

Mr. OBERSTAR. I thank the gentleman.

Just for a point of clarification, Secretary Peters in her capacity as Chair of the Commission was invited to testify with the Commission. But since hers is a minority report, just as with the Supreme Court, when the Chief Justice is not in the majority, he does not deliver the opinion from the bench. The Justice designated to write the majority opinion does so.

So, the Secretary was invited to participate with the Commission or to testify separately or to testify at a separate hearing. She declined those options.

As for the future of the gas tax and the Secretary's views thereupon in this Administration, they will be here when we make those decisions.

Mr. DeFazio.

Mr. DEFAZIO. Thank you, Mr. Chairman.

I want to thank the members of the Commission for their work and the grist they have provided for the coming debate over the reauthorization of the surface transportation legislation in the next Congress.

I think the most important thing for Members of this Committee and the Administration to know from this report is the extraordinary and growing gap between the needs of the American people, the traveling public, the American economy and the Nation's infrastructure.

We only need to travel to some of our competitor nations, China and others, to see what massive investment is doing to promote their economy and their economic competitiveness. Here, we are investing at a rate of a third world nation, and we are moving toward a third world transportation system: more congested, less safe, in fact at times, catastrophically unsafe as we saw with the bridge collapse last summer.

Now, the most controversial thing is going to be how are we going to pay for those investments. As the Chairman said, that is something to be decided at a future date or how close are we going to come to your numbers, but your numbers are astounding.

We are basically, in aggregate, between the private sector and the public sector at all levels, investing, by what I think is a pretty well documented in your report, about one third of what we should be investing if we want to have a more competitive, less congested and safer future for the American traveling public, more fuel efficient and kinder to the environment.

We are investing in aggregate, again well substantiated in your report, less than we need to maintain the investment of the Eisenhower generation in the national transportation infrastructure. That is astounding.

Every day, we are losing ground. Every day, we are moving closer to more bridge collapses. Every day, our roads are more congested, and we are not even investing enough to maintain the existing system. That is an extraordinary condemnation of the current process.

I, too, regret the Secretary isn't here today. I would have loved to have her come and defend the indefensible, which is her position that we need to phase out any Federal involvement and there is no Federal obligation to the national transportation system. She says that by saying we should freeze the current levels of investment by the Federal Government, and we will solve all the problems through rationing, otherwise called congestion management.

Ration the system, price people off it, price independent truckers off it, price working Americans off it, and it will be less congested. The Lexuses will just speed their way to work. That is not a solution in the national interest.

Secondly, of course, she says privatization will solve all. All we have to do is add on the costs of the borrowing and the profits instead of financing it through public entities. That doesn't seem to be a real rational argument to me.

Then finally, of course, she's a big fan of tolling. This is unbelievably simplistic coming from the person in this Administration most responsible for setting a path to the future. But, luckily, when this Congress or the next Congress sets a path to the future, we will be dealing with a different and hopefully more enlightened Administration.

I look forward to the testimony and discussion.

Thank you, Mr. Chairman.

Mr. OBERSTAR. I thank the gentleman.

Mr. Duncan, Ranking Member of the Subcommittee.

Mr. DUNCAN. Thank you very much, Mr. Chairman.

First, I want to join Chairman Oberstar and Ranking Member Mica and Chairman DeFazio in expressing my appreciation to the Commission for this report.

I think considering the quality of the membership of this Commission and the hard work that they put into it—20 months of work, 22 hearings, 300 witnesses—I think that we should pay more attention to this report than probably any report we have ever received, and I think that all the Members of the Committee or hopefully all the Members of the Committee will thoroughly review and study this report.

The Commission has clearly recognized the importance of the transportation system to the Nation's economic prosperity and the enormous challenges we will face addressing these needs over the next 50 years, and I might say we are going to have to if we are going to keep up with our global competitors who are moving much, much faster in these areas at this time than we are.

The report identifies opportunities to simplify and consolidate programs and funding categories. More flexibility for States and localities is a good thing.

I do agree with Chairman DeFazio, though, that there is an important and legitimate Federal role in these areas. People in Tennessee use the highways and the infrastructure in California and vice versa, and it is the same for the entire Nation.

The report makes concrete proposals to streamline the current planning and environmental processes for transportation projects. This is something that we really need to work on. Once again, other countries, China and Japan and India and most other countries that are moving forward economically, move much faster than the seven to ten years that it typically takes on major highway projects and other transportation projects.

The report recommends that funding decisions be based on performance and outcome and relying more on public-private partnerships. These are all areas of agreement that give us real change and improvements in the way that the Federal highway, transit and safety programs are organized and managed.

We need to also encourage, in every way possible, more domestic energy production because we have to bring down these costs for the American people or at least hold them stable and not have our Country and our people as vulnerable to foreign energy producers as they are now.

In addition to that, the conservative foreign policy columnist, Georgeanne Geyer, wrote, in 2003, words that I think are very prophetic. She wrote that Americans will inevitably come to a point when they will have to choose between a government that provides services at home or one that seeks empire across the globe.

We know, we all know that we have spent, I think some estimates are $750 billion or $800 billion on the wars in Iraq and Afghanistan, and we are still spending at staggering rates. But, on top of that, we are spending megabillions in many, many other countries, in fact, every other country around the world through every department and agency almost of the entire Federal Government.

We have to reach a point where we have to start putting our own people and our own needs first once again. We need to tell other countries we need to have trade and tourism, and we need to have cultural and educational exchanges, and we need to help out during humanitarian crises. But we have to start.

It is perhaps a quaint and old-fashioned notion that the first obligation of the American Congress should be to the American people, and it is certainly true in this area. We will fall drastically behind if we don't starting doing that in the very near future.

I hope that we will enact many of the recommendations of this Commission as we go forward in the very near future, and I want to thank the Commission once again and especially Vice Chairman Schenendorf who served us so long and faithfully here on this Committee.

Thank you very much, Mr. Chairman.

Mr. OBERSTAR. I thank the gentleman for his thoughtful observations. He has been a very productive and considerate Member of this Committee for a very long time, and I appreciate his observations.

You heard from us, at least some of us. Now is our turn to hear from you.

Mr. Schenendorf, welcome back to the Committee in a different role. You are used to sitting on this side of that table except during markups, and now you come to us in a new capacity and we are delighted to have you back in familiar environs.

Normally, witnesses have five minutes to present their views, but this is a very substantial subject matter, and so we give you such time as you may require to present the report and then to allocate time to your fellow commissioners.

If I understood right, you chose to go in an alphabetical arrangement. It is up to you, whatever you wish to do with the panel. The time is yours.

TESTIMONY OF VICE CHAIR JACK SCHENENDORF, OF COUNSEL, COVINGTON AND BURLING; COMMISSIONER STEVE HEMINGER, EXECUTIVE DIRECTOR, METROPOLITAN TRANSPORTATION COMMISSION; COMMISSIONER STEVE ODLAND, CHAIRMAN AND CEO, OFFICE DEPOT; THE HONORABLE FRANK BUSALACCHI, WISCONSIN DEPARTMENT OF TRANSPORTATION; COMMISSIONER MATTHEW ROSE, CEO, BURLINGTON NORTHERN SANTA FE; COMMISSIONER FRANK MC ARDLE, SENIOR ADVISOR, GENERAL CONTRACTORS ASSOCIATION OF NEW YORK; COMMISSIONER PATRICK QUINN, CO-CHAIRMAN, U.S. XPRESS ENTERPRISES; COMMISSIONER RAYMOND R. GEDDES, DIRECTOR OF UNDERGRADUATE STUDIES, CORNELL UNIVERSITY DEPARTMENT OF POLICY ANALYSIS AND MANAGEMENT; COMMISSIONER TOM SKANCKE, CEO, THE SKANCKE COMPANY; COMMISSIONER PAUL WEYRICH, CHAIRMAN AND CEO, FREE CONGRESS FOUNDATION

Mr. SCHENENDORF. Thank you, Mr. Chairman.

I am Jack Schenendorf. I am Of Counsel with Covington and Burling, a law firm in Washington, D.C. I have had the honor of serving as the Vice Chair of the Commission, and it is in this capacity that I am testifying before you today.

Before discussing our recommendations, on behalf of all of the commissioners, we would like to thank our Chair, Secretary Mary Peters, who did an outstanding job in guiding us through this effort and all the Department of Transportation staff assigned to the Commission especially our Executive Director, Susan Binder. Their professionalism, expertise and dedication were instrumental in our success.

Our recommendations are the product of a bipartisan consensus of a diverse group of commissioners, five appointed by Republican officeholders, four appointed by Democratic officeholders, from both ends of the political spectrum and everywhere in between, from all regions of the Country, the CEO of a company that relies on transportation services, the CEO of a trucking company, the CEO of a rail company, a State transportation official and a local transportation official. Despite our differences, we were all able to coalesce around the findings and recommendations in the Commission's report.

I should also note that three of the commissioners dissented: Secretary Peters, Former Deputy Secretary Cino and Commissioner Geddes. Once you have thoroughly studied and memorized the Commission report itself, I would encourage you to read their dissenting views that are also included in the report.

My oral testimony today will focus on our key recommendations.

Our first key recommendation is that to keep America competitive, we are recommending a significant increased investment in our national surface transportation system, and we are recommending that investment start now. We cannot afford to wait.

Any effort to address the future transportation needs of the United States must come to grips with the sobering financial reality of such an undertaking. We estimate that the United States needs to invest at least $225 billion annually for the next 50 years to upgrade our existing transportation network to a state of good repair and to build the more advanced facilities we will require to remain competitive. We are spending less than 40 percent of that amount now.

Our second key recommendation is that we are recommending that the Federal Government be a full partner with States, local governments and the private sector in addressing this looming transportation crisis. We believe that the Federal Government must continue to be part of the solution both in terms of providing leadership and in terms of providing a fair share of the resources.

Our third key recommendation is really the heart of our recommendations. It is reform with a capital R. We are recommending fundamental and wide-ranging reform of the Federal transportation program. We do not believe that the Federal program should be reauthorized in its current form. Instead, we are calling for a new beginning.

We are recommending that the existing 108 and some odd Federal transportation programs be replaced with 10 new programs that are performance-driven, outcome-based, generally modal-neutral and refocused to pursue objectives of genuine national interest. We are also recommending that the project delivery time be reduced dramatically, and we are recommending a BRAC-type commission to help depoliticize the process.

We believe that a mission or sense of purpose must be restored to the Federal program. Since completion of the interstate system, the program has had no clear mission. It is now essentially a block grant model with little or no accountability for specific outcomes.

We believe this must change. That is why we are recommending these 10 new performance-based programs. These programs would be as follows:

First, a program designed to bring our existing highways, bridges and mass transit systems into a state of good repair. Second, a freight program designed to speed the flow of goods to enhance U.S. global competitiveness;

Third, a program designed to reduce congestion in our largest metropolitan areas with a population of a million or more by some sort of performance standard like reducing congestion by 20 percent by 2025, something that people can understand and can measure.

A program designed to improve access and mobility in smaller cities and rural areas; a program designed to improve safety by cutting fatalities by 50 percent by 2025; a program designed to provide high speed passenger rail service in the Nation's high growth corridors of three to five hundred miles long.

We would also propose programs designed for environmental stewardship, energy security, Federal lands and research and development.

These programs would give rise to a national surface transportation strategic plan that would guide Federal investment. U.S. DOT State and regional officials and other stakeholders would establish performance standards in the Federal program areas outlined above and develop detailed plans to achieve those standards. Detailed cost estimates would also be developed.

These plans would then be assembled into a national surface transportation strategic plan very much of the type that Congressman Mica has been talking about. This Federal investment would be directed by the national strategic plan. Only projects called for in the plans would be eligible for Federal funding, and all levels of government would be accountable to the public for achieving the results promised.

This would be a dramatic new way to run the program, but we believe that it would restore a sense of mission, a sense of mission that the American people agreed was in the national interest and therefore the American people would be willing to pay for it.

Our fourth key recommendation involves financing and to close the investment gap, we are recommending a wide range of revenue enhancements. Mr. Chairman, there is no free lunch when it comes to infrastructure investment. Policy changes, though necessary, will not be enough in their own to produce the transportation system the Nation needs in the 21st Century. We need significant new funding as well.

Here are our major financing recommendations: First, as a general matter, we strongly support the principle of user financing that has been at the core of the Nation's transportation system for half a century, and we are also recommending continuation of the budgetary protections for the Highway Trust Fund so that user fees benefit the people and industries that pay them.

With respect to specific recommendations, let me start with the long term recommendations first. The most promising alternative to the motor fuel tax for the long term appears to be the Vehicle Miles Traveled fee, provided that substantial privacy and collection cost issues can be addressed. We are recommending that we transition to the VMT fee as quickly as possibly and have suggested specific steps for the next reauthorization bill to hasten that process.

Like the National Academy of Sciences, we think it is going to take until 2025 to get there because you have to basically solve the problems with the system, get the whole system in place and then, to a certain degree, you have to turn over the fleet in order that all the vehicles basically have the equipment in them to allow for this type of system and to minimize the retrofit.

Now, maybe it will be sooner than 2025. Maybe it will be 2020, 2015. Maybe it will be 2030. But we think we need to move as quickly as possible in that direction.

With respect to the interim, in other words, the period from 2010 until the time that this replacement fee can be put in place, whatever that period of time is, we are recommending a comprehensive set of recommendations for how to pay for the program.

First, we are recommending that the Federal motor fuel tax be raised by 25 to 40 cents per gallon over 5 years. This increase would be phased in over a five year period, so it would be 5 to 8 cents per gallon per year, and it should be indexed for inflation.

This works out in year five, if the Congress were to adopt this, this would mean to the average motorist 41 cents a day or 66 cents a day or somewhere in that range for the 25 to 40 cent increase in the gas tax.

Second, we are recommending other Federal user fees to address the funding shortfall such as a freight fee for goods movement projects, dedication of a portion of the existing customs duties and ticket taxes for passenger rail improvements. Tax and regulatory policy can also play an incentivizing role in expanding freight and intermodal networks.

In addition, we are recommending that Congress remove certain barriers to tolling and congestion pricing under conditions that protect the public interest. This will give State and local governments that wish to make greater use of tolling and pricing the flexibility to do so.

More specifically, we are recommending that Congress modify the current Federal prohibition against tolling on the interstate to allow tolling to fund new capacity on the interstate as well as the flexibility to price the new capacity to manage its performance. We also are recommending that the prohibition be modified to allow congestion pricing on the interstate in metropolitan areas with populations of greater than one million.

During this interim period, we are also recommending that Congress encourage the use of public-private partnerships including concessions for highways and other transportation modes. Public-private partnerships can serve as a means of attracting additional private investment to the surface transportation system, provided that conditions are included to protect the public interest and the movement of interstate commerce.

We also expect and anticipate that State and local governments will have to do their part in raising revenues in order to close this investment gap.

Let me end by saying in this interim period, until you can phase in the replacement for the Federal motor fuel tax, we do not see any way to raise the money that is necessary without having the increase in the motor fuel tax be a significant part of the solution. Pricing is a part of the solution. Tolling is a part of the solution and private sector investment.

All those things are a part of the solution, but you also need significant increase in the motor fuel tax unless you want to shift to the general fund to finance this program which we are not recommending.

Let me close by saying that a failure to act would be devastating. The surface transportation of the United States is at a crossroads. The future of our Nation's well being, vitality and global economic leadership is at stake. We must take significant, decisive action now to create and sustain the preeminent surface transportation system in the world.

A failure to act, that is a failure to reform the Federal program, refocus it on the national interest and raise sufficient revenue to close the investment gap would be devastating. The United States would be unable to compete effectively in the global marketplace and our quality of life would suffer substantially. This is not the outcome we want.

We must find the political leadership and the political will to make the necessary reforms and the necessary investment. It will not be easy, but we cannot afford to not do so.

We cannot sit back and wait for the next generation to address these ever increasing needs. It will be too late. The crisis is now, and we have a responsibility and obligation to create a safer, more secure and ever more productive system.

We need to create and sustain the preeminent surface transportation system in the world, and we need to do it now.

Thank you, Mr. Chairman.

I would like to turn to the other members of the Commission. I will just alternate back and forth and start with Commissioner Heminger.

Mr. HEMINGER. Thank you, Jack.

Mr. Chairman, Mr. Mica and Members of the Committee, my name is Steve Heminger. I am Executive Director of the Metropolitan Transportation Commission which is the Metropolitan Planning Organization for the San Francisco Bay Area. I was appointed to the Commission by Speaker Pelosi.

Since I am the first commissioner to speak, I would like to say I am sure on behalf of all of us that we owe a great debt of gratitude to our Vice Chairman who, because of our outcome, as you might imagine, has had to carry additional duties that the Vice Chairman normally may not. So we thank you, Jack, for your leadership.

I would like to dwell just in my brief time, Mr. Chairman, on two of the new program areas that we are recommending, the first in metropolitan mobility.

The Census Bureau tells us to expect 120 million more fellow citizens by the year 2050. From a transportation point of view, that kind of growth wouldn't be too tough to handle if it were spread all across our wide Country, but it won't be. Most of those new Americans will live in metropolitan areas. These metropolitan areas are already the economic engines of the Nation, and they are bound to become even more so as America's population continues to urbanize and cluster near large cities.

In our commission work, as Jack indicated, we have focused on major metropolitan areas with more than one million residents. These 50 or so areas account for 60 percent of the Nation's population in GDP, but they capture an astonishing 90 percent or more of national market share for 3 key transportation indicators: traffic congestion, transit ridership and population exposure to auto-related air pollution.

In a nutshell, these major metros are where the action is. That is why our Commission report recommends that one of the ten new programs focus on restoring mobility to these dense urban centers. We think the Nation should set ambitious targets to reduce traffic congestion in these areas from today's levels, not just to slow the rate of increase.

In order to do so, metropolitan officials surely will need more resources, but they will also need more authority as well to experiment with strategies like congestion pricing to help unclog some of our key commute and freight corridors. With the added resources and authority, we believe strongly should come accountability to meet the mobility targets that they set.

In brief, the Commission believes that it is time to stop complaining about traffic congestion and do something about it.

The second area I wanted to cover is traffic safety, and I regret to say that, here, our track record on highway safety in America is truly a national tragedy. Every year, over 40,000 Americans die on the Nation's highways. That is equivalent to a 9/11 every month, month after month, year after year.

We constantly hear transportation officials claim that safety is job one, and the current Federal bill is even named SAFETEA. Yet, the death toll continues.

With the exception of some rural roads that need to be upgraded, our highways themselves are pretty safe. It is the drivers who are dangerous. Driver behavior is where we need to devote much more attention than we have in the past just as countries very similar to ours like Great Britain and Australia have done so and achieved much lower fatality rates than our own.

Every State should have a primary seat belt law, yet only half do. Every State should have a motorcycle helmet law, but only 20 do. Every State should have an ignition interlock law that prevents repeat drunk drivers from starting their car if they are not sober, but less than a handful do.

Our Commission report, proposes an aggressive but achievable goal of cutting traffic fatalities in half by 2025. We can reach that goal but only if the combined might and muscle of our Federal, State and local government are brought to bear especially in the area, once those laws are passed, of enforcing them to make sure they are complied with.

If we do reach that goal, Mr. Chairman, it would mean 20,000 more Americans every year would be able to tell their loved ones about their drive home from work each day.

Thank you very much.

Mr. OBERSTAR. I am going to intercede for just a moment to observe your observations are quite right. I participated recently in a European Union discussion on highway safety, and the same issues pertain in Europe with five million people, fewer miles of roadway, fewer miles driven, 42,000 fatalities but the same concerns that you cited.

Thank you.

Mr. SCHENENDORF. Commissioner Odland.

Mr. ODLAND. Thank you, Mr. Chairman.

I am Steve Odland, the Chairman and CEO of Office Depot. I am pleased to be here as a business leader and a commercial user of the highway system and our entire surface transportation system.

Office Depot is nearly a $16 billion office supply company. We operate in 34 countries. We have shipments to over 1,200 stores here in North America, and we have next day delivery of supplies to businesses, education, government, hospitals from over 32 different distribution facilities in the United States.

We do over 100,000 deliveries per day. We are third largest internet retailer in the world with nearly $5 billion in sales.

As a user and a contributor to the system, I believe the surface transportation system is at a crossroads. The future of our Nation's well being, our vitality and our global economic leadership is at stake. We must take significant action now to create and sustain the preeminent surface transportation system in the world.

Surface transportation is obviously important. It is important to defense, but it is very important to commerce. People move to and from their places of work. We move goods and services within the Country, and we move goods and services to the ports for export and from the ports for import.

The United States now has incredible economic potential and significant transportation needs. We have said before we need to invest $225 billion a year for the next 50 years to upgrade the existing system to a state of good repair and to begin creating a more advanced surface transportation system to sustain and ensure our long term economic leadership.

The needs of the infrastructure are clear. This is not the first commission to identify the needs of the system, but it is time for us to face the facts. Continued under-investment in business as usual policies and programs will have a detrimental effect on the United States and our ability to compete in the world economy as well as on the everyday lives of Americans.

Steady economic growth and increasing and shifting population make a high performance transportation system more important than ever. To maintain the margin of the U.S. competitive advantage, a transportation network providing fast, reliable, cost effective performance is critical.

We have some things that are working very well. First of all, the interstate highway system works well. The consistency of the system for the users and the ease of use is very important, and we have capacity outside of the urban areas, and we also have capacity inside urban areas during certain times of the day and week.

But the issues are metropolitan congestion, our road conditions, safety, and we have a lot of congestion. By estimates, congestion costs our Country between 78 and 200 billion dollars a year. So we can argue about the needs of the investment, but we are investing today, and it is called waste through congestion.

Congestion causes us to carry more inventory and therefore inefficient use of capital. It causes us more variable operating costs. It causes lowered customer service, lowered efficiency and profits and less global competitiveness.

In a just-in-time world, America needs to ensure it has the right capacity in the right places to compete just in time. That local truck that delivers goods to a neighborhood store is often the last move in the supply chain that spans half the world while the final retail price of those goods reflect 10,000 miles of hard-gained freight transportation efficiencies within that chain.

As we said, over the next 50 years, the population will grow by nearly 50 percent, but our GDP can triple in that period of time. In order to accomplish that, we need the capacity in the system to do it. If we don't step up and focus on this, we risk slipping from first place in the world to second or even third place as other countries pass us by.

Maintenance and expansion of our freight system will require a set of policy tools and incent more private investment and direct public funds towards projects which alleviate the capacity constraints and allow for more traffic to flow across an efficient, sustainable intermodal freight network.

Now, when it comes to funding and financing, every option must be used to address these problems. The gas tax is one of these means. In effect, it is, we believe, a user fee.

In the system, overhead is already in place to ensure that 100 percent of every dollar collected is available for investment. Contrast that to tolling authorities which can use up to 50 percent of their collection to cover their overhead.

While I believe strongly in the free market and a capitalist system and I believe in the role of the private sector, the Federal Government also plays a role in funding and managing the surface transportation sector within a combined effort with the private sector. But we need to depoliticize this process.

Outside of this town, people don't think in terms of politics. We think in terms of moving goods and moving people. The politics are getting in the way for Americans, and Americans are beginning to criticize our elected leaders and our private sector leaders. I think everyone from Congress itself to business to mainstream America is frustrated with the current process.

This recommendation creates a lot of new things. NASTRAC is one of them. NASTRAC is recommended to help take the politics out of the governance of this 50 year plan and ensure the funding is targeted at the projects that are required for the entire 50 year plan and the entire U.S. system. This precedent for a Commission has been set in other areas and has been successful.

We realize this is a bit visionary on our part, but we were asked to be visionary and step out of our comfort zone, and we hope that you consider that.

Our transportation system has helped us to build the greatest economic powerhouse in history. This has allowed us to become the greatest superpower Nation in history. We should seek to build on that legacy for the next 50 years, and our recommendations are designed to create and sustain what we believe will be the preeminent surface transportation system in the world.

Thank you, Mr. Chairman.

Mr. SCHENENDORF. Commissioner Busalacchi.

Mr. BUSALACCHI. Thank you, Jack.

Good morning, Mr. Chairman, all Members of the Committee.

My name is Frank Busalacchi. I am Secretary of the Wisconsin Department of Transportation and also the Chair of the States for Passenger Rail Coalition.

As a commissioner, I have had a unique opportunity to share my perspective and goal for a new direction in national transportation policy, one that includes a Federal-State funding partnership for intercity passenger rail similar to the partnerships that exist for highways, transit and aviation.

The Commission heard testimony from State and local officials and others asking for additional public investment in intercity passenger rail. The Commission agrees that passenger rail must be a part of a multi-modal solution. It can help alleviate highway and airway congestion, high gas prices and the impacts of global warming.

We don't envision rail replacing other modes. We see rail providing greater mobility to help meet the needs of our growing and aging population.

To assist the Commission in advising Congress, I engaged a passenger rail working group to provide analysis. This group created a 2050 map and cost estimates for passenger rail improvements. The map focuses city to city connections in corridors of 500 miles or less. The map provides one perspective on the future of passenger rail. It is entirely illustrative.

Individual States will be responsible for their own rail plans and, with Congressional support, they will be empowered to implement them.

Of the 10 new transportation programs recommended by the Commission, intercity passenger rail is the only modally focused program. The Federal Government will fund 80 percent of the program similar to other modes. Fifty years ago, a bold vision and strong commitment to funding the interstate highway system made it all possible.

Today, both our highway and aviation systems are congested. It is time to invest in another mode and to provide our citizens a modal choice.

I commend my colleagues on the Commission for agreeing to this bold new vision for passenger rail. We are united in our view that this Nation needs passenger rail if it is to achieve its vision of being the preeminent transportation system in the world.

Thank you.

Mr. SCHENENDORF. Thank you.

Commissioner Rose.

Mr. ROSE. Thank you, Jack.

Chairman Oberstar, Ranking Member Mica, it is always good to be here, testifying. Sometimes it is more enjoyable than others and this is one of those days.

[Laughter.]

Mr. ROSE. Most of you know me as the freight rail individual, so I will limit my remarks to the impact of freight rail.

The Commission essentially concluded that freight rail capacity needs to be expanded systematically over the next 50 years and also determined that freight rail market share should be increased. In sum, here is what the report recommended:

First, promoting private investment, the report recognizes that private investment is and always will be the primary means of meeting these goals. It states that rational regulatory policies—economic, safety, security, labor and environmental—are fundamental to sustaining private investment. It also supports incenting private investment in freight rail network expansion.

Second, promoting public-private partnerships, the Commission made freight-related programmatic recommendations that I predict will be hotly debated in freight stakeholder circles. The Commission believes that there ought to be a freight program to help expand and decongest freight networks and recommends more funding for freight programs from a variety of sources and broad eligibility across these programs.

Additional funding should include gas tax revenues and also a portion of the customs fees, any revenues the Federal Government might realize from greenhouse gas regulation and a freight fee.

Trade is the key driver for these increasing volumes. So I think that customs duties are an appropriate source of revenue to help fund this freight program. Diverting just 5 percent of the customs duties would generate almost $2 billion annually, and it would not displace freight between any ports of entry. Also, collection and administration is already established.

The Commission was not specific about any form of the freight fee which Congress might authorize such as container fee or a waybill surcharge, but it did clearly state that it must not burden commerce. No local and State proliferation of such fees, no private sector administration requirements since steamship lines, trucking or rail companies will find it hard to pass along a fee to the ultimate customer.

The Commission recognized that the payers of such a fee must realize the benefit of improved freight flows. This is a fundamental user fee principle. Shippers agree to pay for the Alameda Corridor because they can see the benefits, capacity and throughput as well as a benefit to the surrounding Los Angeles neighborhoods.

I will, no doubt, be asked, should there be a freight trust fund? The rail industry has long had no trust that the funds would flow to project those projects to meet the goals of goods movements versus the political earmarking process. The Commission makes a variety of recommendations for creating transparency and accountability in directing funds to high priority freight projects.

Achieving responsible governance around project funding will be critical to obtaining the freight community's support. I could not support any freight fee and related freight program without it.

I would like to mention the passenger rail provisions of the report. I urge this Committee to commit itself to a bold vision of high speed passenger rail in the next transportation bill, a vision in which high speed passenger rail is the starting point rather than the end point. Incrementalism, where more passenger rail is added to the existing freight networks until it is completely full will be frustrating and potentially counterproductive in light of growing freight revenues.

The Commission envisions high speed rail and was clear about the need to protect and expand the underlying freight railroad networks where joint use exists. The key principles where passenger rail is feasible focuses on corridor service, negotiating at an arm's length mitigating the present and future rail capacity impacts and paying for the capacity costs of the passenger traffic.

In an era of rising gas prices and full recognition of transportation's impact on the environment, Americans need a real passenger rail alternative but, quite frankly, we can't do it on the cheap.

Finally, for the first time, this Commission has demonstrated the need to integrate freight into the Nation's infrastructure policy.

I look forward to any questions you might have.

Mr. SCHENENDORF. Thank you, Matt.

Commissioner McArdle.

Mr. MCARDLE. Good morning. Thank you very much, Mr. Chairman.

My name is Frank McArdle, the former Managing Director of the General Contractors Association of New York which represents the heavy construction industry and am now a Senior Advisor with that group.

I want to begin by acknowledging my Congressman, your colleague, Congressman Nadler, and I want to tell you perhaps a little story to reflect the value of the investments that you make in the system.

Some 30 years ago, when Congressman Nadler and I lived just a block apart, we spent many a Saturday morning at the corner of 94th and Broadway, talking about transportation, spending an hour or so almost every week on the issues.

When we started that dialogue, the New York City subway system had been allowed to run down and deteriorate and wear out. There had been no substantive investment in maintenance or upgrading, and the New York City economy reflected that. Businesses were fleeing because they could not get people to their places of work in Manhattan from the homes and apartments in which they lived.

But an investment program started, and the system is well established, well directed towards a state of good repair, and the economy flourishes.

There is a very simple measure of how effective the dollars you provided in that effort have been. When we started our dialogue, you could buy a one bedroom apartment on the West Side where we lived for $20,000. Today, 30 years later, you would be paying

$800,000 for that one bedroom apartment, and people do it every day because they want to be in a Manhattan that works well because of its mass transit system.

But that system will only survive and expand, as so many other elements will, if you continue the kinds of investment programs that we recommend.

I want to make one other point to you, and that gets to the issue of energy. We now rely on petroleum for 97 percent of the energy that runs our transportation system, 97 percent. Two thirds of all the petroleum we use in the United States goes into transportation. That is 16 percent of the world's production, and it is increasingly in the hands of people who do not like us.

The programs we laid out for you in every aspect of metropolitan mobility, freight or rural and smaller cities programs, they will help us better focus on transportation in a way that will in fact reduce our dependence on foreign oil.

In addition, we have two other proposals that I would call to your attention. One is a major investment program in the research for alternative fuels and a second recommendation that you act to accelerate the development of the infrastructure and the fleet conversions to those alternative fuels. We will not get to alternative fuels as quickly as we can unless the infrastructure is in place for the drivers to rely on, and you can help make that possible.

Thank you.

Mr. SCHENENDORF. Thank you.

Commissioner Quinn.

Mr. QUINN. Thank you, Jack.

Good morning. Thank you for the opportunity to appear here today.

My name is Pat Quinn. I am Co-Chairman and President of U.S. Xpress Enterprises which is a trucking company headquartered in Chattanooga, Tennessee. As a participant in an industry that basically lives on our Nation's highways, I have a keen perspective of how the changes that are occurring there are limiting the growth of our economy.

This report properly identifies, I think, the future infrastructure investment needs that have to happen in our economy.

Commissioner Odland, who is also a customer of ours, properly said that the delivery of goods depends upon just-in-time delivery, and I can tell you that every day just-in-time delivery is becoming more of I will get it there when I can and sometimes if I can. It is due to the congestion.

We heard the estimates of $78 billion to perhaps $200 billion a year wasted in that, and more than 40 percent of that is due to bottlenecks. These bottlenecks that are occurring in our major cities and freight bottlenecks have to be addressed or Congressman DeFazio's statements are exactly right. We will become a third world economy from a transportation standpoint because the infrastructure just is not there to move goods.

It simply means when delays in that cycle happen, it puts more goods on the road to meet the needs of the customers because there is more of it in transit. That almost is a self-fulfilling prophecy of doom. We just add that much more congestion there to meet the same delivery requirements.

And so, I think investment in the infrastructure has to occur, and I think that our report properly recognizes that.

It explicitly recommends that a new freight transportation program should target efforts to eliminate freight bottlenecks and those inefficiencies that develop from them, system-wide improvements targeted to trucking productivity should address incident management, innovative off-peak freight delivery systems and technology and equipment improvements.

It also recommends that the U.S. Department of Transportation begin the formation of a national freight transportation plan by establishing performance standards such as congestion, hours of delay, ability to support heavier and larger vehicles and national goals intended to meet the needs of private freight haulers and shippers.

While we are encouraging the increased utilization of tolling and public-private partnerships and other funding mechanisms, as a user again with paying, obviously, the majority of fuel taxes by the industry that is out there, it is sometimes difficult to recommend that those be increased, but I think that there is no alternative today but to.

That is the mechanism that exists. It is the fairest mechanism, and I think that it is what we have to use because the needs are just overwhelming. They have to be met at this point in time.

Lastly, certainly Commissioner Heminger properly noted the safety concerns as I do too and concur in his views on that. We have to address safety on our Nation's highways. From our own company as well as the companies that we serve on the highway, we are all concerned about that. There are innovations and things that can happen out there to make our highways safer both for the movement of freight but for the movement of our families and our friends.

Thank you very much for this opportunity.

Mr. SCHENENDORF. Commissioner Geddes.

Mr. GEDDES. Thank you, Jack.

Thank you, Chairman Oberstar, Committee Members and fellow Commissioners.

My name is Rick Geddes, and I am an Associate Professor and Director of Undergraduate Studies in the Department of Policy Analysis and Management at Cornell University.

Thank you for the opportunity to serve on this distinguished Commission. It has been a pleasure to serve with such a distinguished group of colleagues.

I have noticed recently in some coverage of the Commission's report that it is focused on some of the respectful disagreements amongst the commissioners on some of the recommendations. I am quite concerned that if that focus continues, the importance of a number of the key recommendations on which this Commission is unanimous will be lost, and I think that would be unfortunate. I, therefore, want to emphasize just a few of the concepts of recommendations, some of which Jack covered in his opening statement, which the Commission unanimously supports.

This Commission unanimously supports the need for substantial increase in investment in the Nation's surface transportation infrastructure.

This Commission unanimously recommends that Federal transportation programs be simplified, consolidated and streamlined.

This Commission unanimously recommends that overall project delivery times be drastically reduced.

This Commission unanimously recommends that Federal programs be refocused on a small number of key areas where there is a compelling national interest.

This Commission unanimously recommends that a performance-driven, outcome-based approach be adopted with regard to all investments in transportation infrastructure.

This Commission unanimously recommends the use of cost-benefit analysis in the assessment of the efficacy of investment decisions.

This Commission unanimously recognizes that tolling and pricing are important components of any solutions to the formidable problems facing our Nation's surface transportation infrastructure.

This Commission recognizes that private investment has an important role to play in the funding of our Nation's surface transportation infrastructure.

This Commission recognizes that all modes have an important contribution to make in solving our Nation's surface transportation infrastructure problems.

This list is only a short list of the recommendations on which this Commission, after a long and arduous process, has found unanimity. I believe that all of these recommendations, if adopted, will have important beneficial effects on our surface transportation system, going forward, and I believe that this will be a lasting contribution of this Commission.

I look forward to your questions. Thank you.

Mr. SCHENENDORF. Commissioner Skancke.

Mr. SKANCKE. Thank you, Jack.

Good morning, Mr. Chairman, Ranking Member Mica and Members of the Committee.

My name is Tom Skancke, and I am a transportation consultant in Las Vegas, Nevada. It has been an honor for me and a privilege to serve on this Commission for the past 22 months with such distinguished and credible people. I cannot imagine 12 other individuals that could have served our great Nation in this capacity.

I would also like to thank you, Mr. Chairman and Members of this Committee, for the additional time for us to complete our work. I don't believe that this job could have been done in the 12 months that we were allowed originally.

As my colleagues know, I have spent most of my professional life working in the private sector to bring to completion important needed transportation projects across this Nation. I have done so within the framework and rules and regulations and laws passed by Congress, and I must say that the transportation crisis of the Nation that we have never seen before, one that is likely not to change unless Congress does something very quickly and very swiftly.

I would like to thank the Ranking Member for bringing forward this morning in his comments the project delivery process. That is where I would like to focus my comments today because I believe and we have heard across the Country that the project delivery process causes a lot of waste in both time and in money.

As we traveled across America in our field hearings, listening to the American public and DOT directors across the Country, we learned and it was proven to us that when you add one Federal dollar to a transportation project, that adds a minimum of ten to fourteen years to a project before it actually gets started for construction. Now some will say that is about the NEPA process, and I will tell you that the elaborate process surrounding NEPA is a part of the problem but not the entire problem.

I realize that this process is an environmental hot button here in Washington, D.C. and across the Country, and I will likely have to start my car from a remote location if I continue this debate on the delivery process. But when you add one Federal dollar to a project, it adds fourteen years to the delivery time.

I am not going to discuss today what happens with you in the New Starts Program because that is an entirely different subject, but let me explain to you briefly.

For a $1 billion project today in 2008 dollars, by the time that project is completed in 2022, the cost of that has cost the American taxpaying public an additional 3 to 4 billion dollars. When you add inflation, review time, product cost increases, public bidding processes and the like, ladies and gentlemen, we are spending money we just don't have and future money that can better be spent elsewhere.

If I may, Mr. Chairman, if that $1 billion took only five years instead of fourteen years, we could not only have the project earlier to meet the community's needs, but we would have more money to authorize for more projects. We could maybe upgrade 200 additional $50 million interchanges. We could fix maybe 150 other bridges.

We could add additional freight and passenger rail lines, improve our transit system and we could add capacity equal to hundreds of additional lane miles with new technology, lanes or up to date design to provide congestion relief and save money.

The leftover money, Mr. Chairman, we could maybe provide for more bike lanes, pedestrian walkways and have cleaner, safer and healthier environment.

The delivery and funding crisis is not coming. The delivery and funding crisis has arrived.

The United States is a great Nation that has created the interstate highway system, brought the automobile to the masses, adopted the locomotive and built a cross-continental rail system thereby developing at the time the world's preeminent transportation system. Other countries envy what we have which is why they are now trying to emulate what we have done.

To that end, Mr. Chairman and Members of the Committee, I encourage you to work towards making our transportation system not just the one to be envied by the world but one that is delivered in a timely manner. By doing so, we can stay ahead of the competition and save our American taxpayers more on their hard-earned money for additional transportation projects, for their personal quality of life.

This report is more than just a report about an increase in the gas tax, and I hope we don't get lost in that fact.

This Commission has spent 22 months of hard work. Most of us have traveled many, many miles on our own budgets. In fact, this Commission ran out of money four months ago.

Thanks to many of us on this Commission. I would like to acknowledge a couple of them. This report here today, the executive summary was funded by Steve Heminger in San Francisco. Frank Busalacchi and his team at the Wisconsin DOT funded the intercity passenger rail working group report.

Most of us traveled to and from Washington, D.C. for the past four months on our own budgets, and we did so because we had a job to do, and I believe that the job that we did is one worthy of significant consideration.

I want to thank you all for your time and your years of dedication to our Nation and the people who live here.

It is an honor for me to be here today, and I thank you for your time and attention. I will be happy to answer any questions, Mr. Chairman, from the Committee. Thank you.

Mr. SCHENENDORF. Finally, to wrap things up, we have Commissioner Weyrich.

Mr. WEYRICH. Thank you, Mr. Chairman.

I am Paul Weyrich, Chairman and CEO of the Free Congress Foundation. I served on the Amtrak Board for six years. I was Vice Chairman of the Amtrak Reform Council. I did transportation appropriations work in the Senate. In point of fact, I have been involved with transportation for many, many years.

Half of the Country does not have any mass transit and, of the cities that have transit, many don't operate a system worthy of getting people out of their automobiles and into usually buses. People do not like to ride buses which is why the Commission recommended an increasing dependence on electric rail throughout the Country, particularly the cities that do not have it now.

In fact, at our retreat, we kicked around the notion almost of an entitlement based on the size of the city with electric buses for smaller communities and then light rail. Frankly, there aren't many communities that would have heavy rail. Most of them already have it.

But what we have to do is to fund a first class transit system to the point where people have the incentive to get out of their automobiles and into the transit system such as we have in St. Louis where over half of the people riding that system could drive but have chosen the transit system rather than driving.

So, ladies and gentlemen, it is imperative that we offer people a choice. Nobody wants to put a gun to anybody's head and tell them they have to ride transit. Rather, we want to have the kind of systems in place as we have now in some of the newer cities that are attracting large numbers of people, communities where everybody said that light rail wouldn't work and it is working very well, but we want to have that in other communities to the point where people will say I want to ride that. I will leave my car at home because I have the right kind of choice.

I think transit, after the great society, became a program that really was aimed at the transit-dependent and it became thought of as a program for the poor and the elderly and so on, but look at Metra in Chicago. Most of the people riding that commuter rail system are Republicans. Most of them are business people. Most of them come into Chicago with their suits and briefcases. It is a beautifully run system, and that is the kind of system that we are talking about.

Thank you, Mr. Chairman. I know that you are deeply committed to the cause of transit, and I look forward to working with you on this project.

Mr. SCHENENDORF. Thank you. That is it from us.

Mr. OBERSTAR. I want to note for the record that this may well be a record. We have had nearly a quorum of the Full Committee who have sat here spellbound, I hope—at least I have been—for more than an hour while we listened to others instead of talking to each other or just talking.

Splendid presentation, thoughtful contributions from each and exceptional dedication and showing of a wide variety of interest but all imbued with a sense of mission and of history. As I said at the outset, I think this will be, the Commission's report will be a transformational moment in the history of transportation and will be looked upon as the beginning of the 21st Century transportation initiative.

There is an old saying about how to make an omelette. First, you have to break some eggs.

You have broken the eggs in that spirit, taking the mold of transportation as we have known it and crafted it. Many of us have been here for a long period of that last 50 years of transportation and have contributed to shaping the mold that you have now proposed to break. To reshape a national surface transportation strategic plan, a national surface transportation commission based on the BRAC and the postal rate commission.

A stern message to the Committee, to the Congress, to the Administration: do not reauthorize in its current form. And a suggestion of what to do, instead of an admonition, a suggestion, 10 suggestions, specifics, more money into the system but subject to benefit-cost analysis, performance-based outcomes and 9 points on how to measure them, a project delivery process.

I hope the Commission members looked at what we did in SAFETEA-LU on project delivery. Unfortunately, no State to my knowledge has yet implemented that project delivery initiative that then Chairman Young charged me with establishing and which we included in the bill in the House and passed the Senate. But the States, I know of no circumstance where a State has implemented it, but that is a good starting point and you are right to signal this out.

Then Commissioner Weyrich, on the transit issue, thank you for tracing the history. That was a very, very incisive and insightful reminder of the evolution of the transit idea. We need to shape a new or renewed mission statement for transit, and I look forward to working with you to develop that.

Mr. Skancke, this is a citizens commission, but it is probably the first time the citizens have funded their own commission to do work for the Federal Government. For that, we apologize on behalf of our colleagues on the other side of the Hill who have failed.

I just want to say that this House, on a bipartisan basis, has four times passed the technical corrections bill to provide the authorization for the funding for the commission. We will find a way, I hope, to do it retroactively, and I know that Mr. Mica joins me in that initiative because we participated in the last Congress and in this Congress.

I noted that each of the commissioners in one way or another said that the funding recommendations are not the centerpiece but a part of an overall picture. In that respect, I find it very disappointing that the Department of Transportation is, in effect, distorting the Commission with their various statements, trying to concentrate attention on proposals for an increase in the user fee or the gas tax.

I remind those observers of the scene that in 1956 when the Highway Trust Fund was enacted, it was with a three cent user fee. A year passed, the Federal Highway Administration came back to the Congress. My predecessor was one of the five co-authors of the Interstate Highway Program, John Blatnik. His portrait is over there in the corner.

They said we need an additional cent. It passed the House on a voice vote. It is hard to get even the prayer passed on a voice vote these days.

We need what you have all described and demonstrated, a setting aside of partisanship in favor of policy. Policy-ship is what we need.

Thank you for your report.

Now Mr. Mica.

Mr. MICA. First of all, I am pleased to see the Commission recommend a national strategic infrastructure plan. I tried to lobby some of you individually to go that route. I have been on the Committee only 15 years—Mr. Oberstar, 32 years—but I quickly realized in assuming our side of the aisle's responsibility that we just do not have a strategic national infrastructure plan.

People, we are competing against China, Inc. and E.U., Inc. It is all about infrastructure trade and business, and we don't have a plan.

So, Mr. Schenendorf, I don't know if you were responsible for this, but the Commission, I guess, agreed unanimously we need that.

I notice you put that in a commission. Then you also gave them some teeth which I have some questions about, and that would be to have the commission set the fluctuating rate for the tax. Is that correct and what is the thinking there?

Mr. SCHENENDORF. I think initially the plan, the national strategic plan would be developed by State and local governments. It is really a bottom-up planning process, and that would really be done by the State and local governments with DOT.

Mr. MICA. Right.

Mr. SCHENENDORF. The commission would simply validate various parts of it.

Mr. MICA. But then the part I question is to date that responsibility for setting the tax or the fee has been basically Congress, and you are shifting that to the commission.

Mr. SCHENENDORF. What we are basically saying is that once you take this plan and you get the cost estimates, that the commission would then basically validate the cost estimate and say if you are going to be able to achieve these performance standards over this period of time, here is what you need to authorize and here is what that would translate into in user fee increases.

Mr. MICA. You are not advocating the commission assume the responsibility for enacting it.

Mr. SCHENENDORF. It would sent to the Congress for an up or down vote like BRAC. Frankly, that proposal came out and is an attempt to kind of depoliticize the issue and provide a mechanism whereby Congress can come to a yes or no on making the investment that is needed for the infrastructure.

Mr. MICA. Okay. Well, first of all, you identified the need and did a great job in that. The issue and Mr. DeFazio and Mr. Oberstar and others have said it is all about raising the money. I mean we can all identify the need, but we have to raise the revenue to address the need.

Now I would liked that Commissioner Skancke, he identified one element which is the process and how much that costs. How much do you think we could achieve in increased production or in increased project dollars by speeding up the process?

You gave sort of an example. Again, in the scheme of what we need, what do you think we could do by increasing and reforming the process?

Mr. SKANCKE. Congressman, Ranking Member Mica, we did not do an analysis of what we thought we could save, and we are happy to do so. But what we heard across the Country was the fact that when you add a dollar, it slows the process down.

And so, we did not actually say how much we could save but if you just take an example of just one project of a billion dollars, you could save about three billion over that whole year.

Mr. MICA. One of the things that my Administration has not been good in supporting is bonding and taking the revenue stream that we have now and leveraging that out. That is one of the things I think we can do other than just increasing taxes. Again, if we do a number of these things, we save money. We put projects forward by speeding up the process.

I asked the staff and Mr. DeFazio also said that we are getting into a third world level of infrastructure, but the way we finance it is third world.

I went with my wife to visit some of her relatives in Poland, and the way they financed building their house was every month they would buy a few more bricks. They do the foundation first, the plumbing and would go year after year because there was no financing, and that is what I think we are doing, third world financing.

Bonding, to me, $500 a month, if you add $1,000 a month to build your house, it would probably take you all 30 years to build it. On an $83,000 house, 6 percent that $500 could finance.

Do you see bonding also as one of the elements of getting us to the dollars that we need, Mr. Schenendorf?

Mr. SCHENENDORF. Yes. Part of our recommendation, I mean we view tolling which typically is bonding projects and public-private partnerships which often are as definitely an essential part of the solution, and it is a piece of the solution. I don't think we had any witness come before us and say that that was the entire solution.

Everybody, I think, recognizes there needs to be more investment and, in the interim period, it is the motor fuel tax that can really provide that additional amount.

Mr. MICA. Well, again, I have my concerns about how that diminishes. As it diminishes, it keeps us sort of at a level. Even if we increase 5 cents per year, in 5 years, say the authorization period, we increase it 25 cents. We are basically flat, given the information that the Secretary of Transportation of Florida gave me.

My final point, I have to compliment Paul Weyrich. As a fellow conservative, he and I are of the same ilk. But his vision for years and years in trying to educate folks, not only in the past but today, on how cost-effective transit, mass transit and high speed rail systems and transit alternatives can be not only from a conservative fiscal standpoint but now for energy and for the environment. So I salute you and thank you for your contribution to the Commission.

I yield back.

Mr. OBERSTAR. I thank the gentleman.

Amidst all the hand-wringing about the future of the Highway Trust Fund and alternative fuel vehicles, the latest report from DOT shows a 700 million gallon increase in fuel consumption in 2007 over 2006. We are not falling behind. It is increasing.

I want to encourage Members to be brief, and I tried to set that tone myself at the outset, so that we can get comments and observations from all Members.

Mr. DeFazio, the Chairman of the Subcommittee.

Mr. DEFAZIO. Thank you, Mr. Chairman.

Just quick, a little bit off the topic here but Mr. Busalacchi, I believe, would be interested in addressing this question, perhaps others.

We are having a bit of a discussion here about what would constitute an effective stimulus package for the American economy, and many of us on this Committee believe investment in infrastructure would be. We are getting a little push-back from some of those in our leadership who believe it couldn't happen soon enough. Could you comment on that, Mr. Busalacchi?

Mr. BUSALACCHI. Certainly. Just to give you a little history, the last couple of months, in the State of Wisconsin, I have had briefings with our Department of Revenue and Department of Commerce about the economy. We have kind of looked at it. Our own budget shop, we look at it and we see what is going on. Of course, everybody is a little nervous, Congressmen.

I brought our people together, our staff together, our planners and I said, look, if there was an injection into transportation, is there a way that we could turn this around quickly? Because there is a school of thought out there, Congressmen, that oh, it takes too long to get these things and to get them up and running. That is not true.

If that were to happen, we could turn it around very, very quickly, and I believe that other State Departments of Transportation could do likewise. These bills are jobs bills. It is not like you get nothing for what you are doing here. These create a lot of good, and I feel very strongly that we could do that.

Mr. DEFAZIO. But this construction season, you could let contracts and put people to work?

Mr. BUSALACCHI. Absolutely, absolutely.

Mr. DEFAZIO. All right. Thank you. Thank you for that.

Commissioner Schenendorf, in your prepared testimony, I thought you made an interesting comparison and that was between the potential impact of your recommended increase in the gas tax and the hot lane tolling, what the costs would be per day. Do you want to elaborate on that a little bit because I thought that was a very interesting observation and comparison?

Mr. SCHENENDORF. As you know, we have recommended a blend of solutions, and I guess the point is that none of these solutions come without pain. The gas tax solution which is part of the solution, if it were implemented at the levels we are talking about, that would translate into, for the average motorist, 41 cents a day at the 25 cent per gallon, up to 66 cents a day at the 40 cent per gallon range.

Contrast that now to this project in Northern Virginia which is a public-private partnership, which is being funded as a congestion management project. They are estimating that the average fee per trip is five to six dollars. So, every time a car gets on that 14 mile segment, on average in rush hour, it would cost five to six dollars.

The rate that they are charging of 10 cents a mile at the low end and a dollar a mile at the high end, if you get 20 miles to the gallon, that would be an equivalent of either a $2 gas tax or a $20 gas tax for your trip on that road.

The only point just to make is that if you talk about tolling or public-private partnerships, none of these things are cheap. We think there is a role for public-private partnerships and premium services like that, but it is only a piece of the solution. You can't implement that everywhere to solve the entire problem, and that is why we have recommended a combination of solutions.

Mr. DEFAZIO. Right. I would note, and I am going to ask for further comment here because I am particularly concerned about some of these arguments we are receiving about congestion pricing. I think there are some very substantial equity issues.

There is an allegation that trucking companies could very easily schedule to deal with congestion pricing. Anybody who would say that has not been involved or is not familiar. It may come from academia.

But the trucking industry would say like last week we had snowstorms. People were delayed in the Siskiyou summit. Say we impose congestion pricing in Portland as some have advocated, well, gee, your schedule would get kind of messed up because of the snowstorm and now, well, I guess you have an alternative. You could drive up over the mountain, through the pass, up the east side and then come back down and go around Portland to avoid congestion pricing or you can continue on your trip.

That is just scheduling. That's interruption. But even normal scheduling is difficult for truck drivers in terms of weather. They don't determine when deliveries are ready and when they have to depart. To say somehow the entire economy would rejigger itself and the trucking industry could avoid high costs and congestion or we just pass those costs on in the products, I think is a little Pollyanna-ish.

But I go beyond that to the issue of equity for average consumers. I see in the chart, in 5-38 here, it looks like basically the fuel tax seems to be inversely proportional in terms of equity according to this chart to congestion pricing. That is it looks like equity by income group for the fuel task gets a pretty high rating and equity by income group for congestion pricing gets an abysmal rating.

People don't determine when they go to work. Now I don't quite understand the choice that people would have to make. The choice is you don't determine when you go to work.

Say you live on the east side of town and you work on the west side. We impose congestion pricing. There is not a viable mass transit alternative that will get you there within a reasonable time. What is your choice? Sell your house? Move? Quit your job? Tell your boss, hey, boss, I'm coming in two hours later, I have to avoid that congestion pricing?

I don't think it is going to work real well.

Mr. Geddes, can you tell us how you are going to deal with these equity issues with congestion pricing?

Mr. GEDDES. Certainly, I would be happy to, Mr. Congressman. I think that one of the beauties of our economy today is its flexibility. I think we have one of the most flexible economies in the world, and I think that the number of ways in which our economy would adjust to a new system.

Mr. DEFAZIO. No. I want to deal on the big. I want to deal with how do we come to an equitable position here?

We are going to impose congestion pricing. Now people live where they live; they work where they work. Suddenly, you are confronted with congestion pricing. You can't choose what time you go to work. You go to work when congestion pricing is imposed. What are your alternatives as a consumer?

If there isn't a viable mass transit option, what are your alternatives here? Quit your job? Sell your house? Move? Say sorry, kids, we are moving?

Mr. GEDDES. My brother owns a small business in Baltimore and, because of congestion in that area, has moved to several shifts. He has an early shift that starts at 7:00 and a later shift.

Mr. DEFAZIO. But the workers didn't get to determine that, did they?

Mr. GEDDES. No, they didn't.

Mr. DEFAZIO. He is an enlightened and somewhat flexible owner or manager.

Mr. GEDDES. They get to determine which shift they would like to work on. It is their preference.

Mr. DEFAZIO. Right.

Mr. GEDDES. And I assume he could go to a third shift if he wanted, if people didn't want to travel during peak times.

Mr. DEFAZIO. But using congestion pricing, if I may, to manage demand I would call rationing. Now we know rationing doesn't work real well because it distorts the market. As an economist, you have to agree that we start rationing, you are going to create some distortions in the market because that is what you are talking about here, rationing. I mean you get to the point.

Let me use a concrete example, the Indiana toll road. One of the many prescriptions is they have to meet a certain congestion standard on that toll road. There is also a non-compete agreement, 10 miles either side.

Now the owner-investor, Macquarie, has to meet that congestion standard. They could meet it by, as you point out, making investments that have very low rates of return in new capacity on that road or they can meet it by jacking up the price and driving people off.

Unfortunately, when you drive the people off the road to meet the congestion standard, they flow into the corridor, 10 miles either side, where they have a non-compete agreement with the State.

Then you have what I think economists call an external dis-economy. That is we have now clogged up all the roads around that road.

They are meeting the standard. They are getting their profitability, but the State now and the people have a problem which they can't solve because we have a non-compete agreement. That is one example of congestion pricing, and that is rationing, and it distorts and causes inadvertent effects.

I just can't see how this is some grand solution when people don't have viable alternatives that are comparable.

Mr. GEDDES. Would you like me to respond?

Mr. DEFAZIO. Sure.

Mr. GEDDES. I will be happy to do so.

So, in terms of your terminology at the beginning regarding rationing, keep in mind that price is the way that we ration almost all goods in our society. That is the way we determine how many tomatoes people buy and how many cars people buy, gasoline.

Mr. DEFAZIO. Sure, but we are talking here about public infrastructure.

Mr. GEDDES. Right.

Mr. DEFAZIO. There is a difference when it is public infrastructure.

Mr. GEDDES. But it is inappropriate to apply, to say that this is somehow different, that this is rationing and when people decide to buy tomatoes or not to buy them because of the price, that that is somehow rationing.

What we are doing is consistent with Economics 101 where you ration the good by the price and by the people's willingness to pay for it.

Mr. DEFAZIO. But we are talking about public infrastructure, public good here. Basically, what you are saying is people who can afford to use the system should be able to use it, and people who can't afford it shouldn't be able to use it. You don't think this is going to cause some massive dislocation and inequity in this economy for workers and business?

Mr. GEDDES. Keep in mind. Keep in mind that with a large number of other goods that we consider to be public utilities or network industries, electricity for example, natural gas.

Mr. DEFAZIO. I am glad you brought up electricity, and you must be an advocate of deregulation. I am one of very few people who opposed the energy deregulation here in Congress back when we authorized it in wholesale, back in the early nineties, and I have been opposed to the California deregulation and predicted it would be disastrous.

Of course, now the studies are out. Every State that has deregulation, people have seen the gap grow by four cents a kilowatt hour from two cents a kilowatt hour.

We had regulated rates of return and a public infrastructure. Now we have it deregulated. People pay a massive amount more. They still get electricity. The people in the regulated markets still get electricity.

You think this is a net benefit? I mean the only people I know of who thought this was great were like Ken Lay and the people in Enron, and the problem was they got caught.

Mr. OBERSTAR. The gentleman's time is expiring although his enthusiasm is not.

[Laughter.]

Mr. DEFAZIO. Thank you, Mr. Chairman. Mr. Chairman, perhaps Mr. Geddes and I can continue this at another venue.

Mr. OBERSTAR. I think that would be appropriate.

Mr. DEFAZIO. The point I am trying to make here is there may be limited applicability for this function, congestion pricing. But to say congestion pricing, tolling and freezing the Federal investment and relying on the private sector is going to solve this problem, I think is absurd.

Thank you, Mr. Chairman.

Mr. OBERSTAR. We will explore those matters in further hearings over which the gentleman will preside.

Mr. Petri.

Mr. PETRI. I would observe on that last point or discussion that queuing or congestion is another form of rationing, and the question is how you want to do it. We have a lot of social services where we don't provide more resources, so we end up rationing through delay. That is one of the complaints in the health care area, that people worry about some changes that might be made.

But, in any event, if we don't come up with the resources, we don't increase the capacity. If you have more time than money you prefer, I suppose, using time, but overall it is probably more efficient for society to figure out how to maximize the utilization of the existing infrastructure to increase production and people getting to work and all the rest.

But, in any event, I would like to ask a question that reflects the concerns that Mr. Rose and Mr. Skancke both expressed too. You suggested a major transformation of the system, and you have talked about the huge need that we have and the consequences to our Country if we don't maintain and improve our infrastructure that underpins our economy and our standard of living.

But there is a lot of resistance in the Country and in the political process because of perceived pork-barrelling, but it really is thought we are not getting value for money spent, that there is a lot of cost that is unnecessary both in procedures and in various requirements and delays. As a result, it costs two or three times as much to do something through the system that we have at the

Federal level than to figure out some other way to do it because we can't reform it.

How important is it to reform the system?

You talked about a big increase in investment. I think people are willing to pay for what they get, but how are we going to assure them that they are going to get value for this increased investment? How important is reforming the system, in other words?

Do the two go hand in hand or, at the end of the day, if we have a stalemate out here, should we just figure out some way to increase taxes and hope it works?

I don't know who would like to respond.

Mr. SCHENENDORF. I think a number of us may want to respond to this. Let me just take a quick first crack at it.

I think that is what we thought was one of the number one things. First of all, you need both. We are recommending that you have to have both together. You have to have reform, and you have to have increased investment.

I think we came to the conclusion that in order to get the increased investment, you really have to restore a sense of purpose and mission to the program.

In the days of the interstate program, people knew what you were trying to accomplish. They were willing to pay to get that.

Today, it is very hard to discern what the program is really trying to do. Consequently, you have the donor-donee fight. You have the Members trying to get earmarks because that is the way they can show back in their districts.

We are giving you a program here where we are recommending a performance-based program that we think people will buy into this and say these are the things we need to do and here is what it is going to cost. Then that will help you to be able to politically raise the revenues to do it.

We think, without that reform, you really won't be successful in trying to raise the revenues. I don't see the American people supporting big increases in user fees to just say it is the same thing and they really don't know what the money is being used for.

But I do think this is a point that a number of commissioners felt very strongly about, and I would like to give anybody that wants to a chance to talk about it. Steve?

Mr. HEMINGER. Thank you, Jack.

I will give you, Congressman, one example from California where you may be aware that most of the counties in our State, where the population lives have raised sales taxes on themselves. Our current voting standard is by two thirds vote, public vote. They have done so not with a blank check. They have done so only because they are presented with a program of investment, itemized projects that will deliver improved performance.

I think when you make that kind of contract with people, I think they are willing to invest. They are willing to put their money where their mouth is. We have some of the worst traffic congestion in America, and people are willing to pay for solutions to it.

I think that kind of strategy can work nationally if we can develop, as Jack said, a national strategic vision for how we want to improve performance, reducing congestion, savings lives, speeding goods movement. If we can offer those promises, and it is risky to promise and we need to be accountable for the promises if we make them, but if we can, I think we have a different discussion with the public about whether additional revenue is desirable.

Mr. SCHENENDORF. Anybody else?

Mr. ROSE. I don't really have a lot to add. I think it is all around transparency and governance of how this would work.

We studied a number of the privatization, public-private partnerships around the Country. When somebody comes in and monetizes a piece of infrastructure and then those funds don't go back into the infrastructure, I think it is a real problem, and it has to be around transportation. Even though our society and where we have this infrastructure has other issues, it has to go back into transportation.

I know, certainly from any time I am dealing with customers, when we are talking about user fees, container fees, anything like that, their biggest concern—and unfortunately it is well founded—is that the money will be siphoned off into other projects, not just about transportation. When we lose that credibility—we jointly—we lose, quite frankly, the trust of our shippers and their answer is no, just say no to everything.

Mr. OBERSTAR. I thank the members. I know other commissioners. We are running up against votes on the House floor.

I want to depart from the order to recognize the former Chairman of the Committee, Don Young, under whose Chairmanship the current law, SAFETEA-LU, was shaped and out of which emerged this Commission. He was detained earlier today with other commitments, and I want to recognize the gentleman at this point.

Mr. YOUNG. Thank you, Mr. Chairman, and again I want to congratulate you on having this hearing, and I want to congratulate the panel.

When the Chairman and I decided to set up this Commission in SAFETEA-LU, we were hoping that suggestions would come out to solve the problem about congestion and where we are going in the future.

I am one that had supported and will continue to support the raising of monies for our infrastructure because the importance to compete globally is on transportation, and we have not kept up. It is that simple.

I am little frustrated when people come out with the idea there is a magic wand. You may as well have this pencil doing it. Someone is going to pay and how we pay for it has to be decided, and that is going to be up to the Chairman and the Members of this Committee and how we raise those dollars and what we have to do.

I am pleased with the report. I am a little disturbed about some people who don't agree that the money should be raised. We all deal with public-private endeavors. That can play part of it. Tolls can play part of it. But, overall, we are going to have to have the public participate in upgrading this infrastructure that is 50 years old.

My only one question in your debate and discussion and, by the way, welcome, Jack. Glad to see you back down there. Mr. Skancke, good to see you here and Mr. Rose. We have all these nice people on this panel. I will tell you that right now.

The gentleman from California mentioned the county putting taxes in this proposal. Is this an interstate transportation proposal or does it include intra? I mean this is what I am interested in.

Mr. HEMINGER. Congressman, what we tried to do in our report is identify areas for investment of genuine national interest, and so I would think that would predominantly be interstate travel, although in metropolitan areas quite a bit of it may be intrastate.

We recognize that there are a lot of needs out there. They are all important. It is just they are all not the responsibility of the Federal Government. What we tried to do in our report is identify those areas like freight, metropolitan mobility and safety that really rose to the level of genuine national interest, so that we could refocus the Federal program in those areas.

Mr. YOUNG. The reason I ask that is because you recognize when Eisenhower passed the first highway bill, one of my arguments was it went east and west or west and east and we needed to develop north and south, and that is crucial.

I do expect the communities being involved. If they know they are going to get their tax dollar spent right there, I think they are more inclined to support it on an intrasystem if we are going to be writing this bill with the idea of a national transportation system which includes rail, includes highways, includes new bridges, et cetera, so we can compete globally.

I know it has been mentioned before, but China is building more highways now than we have total in the United States because they want to be able to compete and they want to connect one another, their provinces with one another, which made our Nation great.

We just got behind, and people say, well, we can't afford it now. Boy, oh, boy. I have an old saying: You shouldn't plant the tree today. You should have planted it 20 years ago. You shouldn't wait any longer, and we shouldn't wait any longer on this transportation.

Again, Mr. Chairman, I appreciate your indulgence and appreciate your leadership in this issue. I just hope we can come up with a solution to it.

Mr. Schenendorf?

Mr. SCHENENDORF. I would just add that the national freight program that we are recommending and the national rural access program that we are recommending would both provide for upgrading the kinds of corridors that you are talking about.

Mr. YOUNG. I thank you.

Thank you, Mr. Chairman.

Mr. OBERSTAR. I assure the gentleman we are going to start planting trees today.

Mr. Rahall.

Mr. RAHALL. Thank you, Mr. Chairman, and I do want to salute you for calling this hearing and so quickly upon the release of this study Commission's report.

I have been following the morning's hearing very closely and heard each of the testimonies and the opening statements of my colleagues. I heard you refer to scrambled eggs, Mr. Chairman, and I thought you were serving an omelet lunch, so I can down here immediately.

[Laughter.]

Mr. RAHALL. I might also add that, Jack, I heard you and other members answer numerous questions during the press conference upon your release over C-SPAN Radio as my wife and I drove up here Tuesday afternoon along our beautiful interstate system. She slept rather soundly, but I enjoyed listening to every comment and question.

[Laughter.]

Mr. RAHALL. I know you answered numerous questions from the media during that press conference on Tuesday during the release of this report.

I salute each of you for the work that you have done, the time you have taken from work schedules and your personal lives to contribute to a transportation study as you have given this Nation. It is a very important work. It is going to be around with us for some time to come.

To those who might say that Congress perhaps should abdicate its responsibilities and turn these tough decisions that are needed in the future over to an outside commission to make those recommendations much like many recommend in regard to Social Security, I would say, bad idea. Congress is not going to abdicate our responsibilities and certainly not under the very capable leadership of the Chairman of this Committee, Jim Oberstar.

You have recognized the reality of our surface transportation needs. In your mission to develop a fair and just system, you have shown a firm commitment both to the reality that more investment is needed and the consequences if that investment is not used more effectively.

I do want to commend you for recognizing that our transportation needs cannot be solved by public or private sectors alone but that a strong public-private partnership is needed.

This is what we have experimented with in West Virginia. We have had coal companies that have mined the coal, thus generating much needed revenue to our State and local units of government and leaving in place the roadbed for future Federal and State transportation infrastructure investment, hopefully at less cost than might otherwise be needed. It is this type of partnership that we need to certainly develop more of in the future, and I commend you for recognizing that.

I do have a concern, though, and this leads to my question, that perhaps the Commission has not paid enough attention to the very rural needs of our Country. As you know, most of this Nation is rural and rural America has needs that must be considered. As I am sure each of you are aware, it can cost us up to $24 million per mile in a rural part of our Country such as southern West Virginia to build a road versus a mile in a flat state.

So I would ask you this question. You did focus most of your report on congestion and other issues in the more urban areas, but what about rural roads? What is your thinking about an equitable financing plan to address these parts of the Country where it is much more costly to build roads than flat States?

Mr. SCHENENDORF. Thank you for raising that point, and we really did take rural America into account in this report. Maybe we didn't talk about it as much as we should have in the report, but we did.

The program that would bring our Nation's infrastructure into a state of good repair, that would apply to all rural roads as well. So we would be bringing that program itself. We would make a major investment in rural America just to bring the existing system into a state of good repair.

Our national freight program, a lot of the improvements that are going to be needed for freight and the corridors that will be upgraded will be in rural areas.

Then we have a special program that is targeted to rural America and smaller cities, all of the cities outside of a million which has its own program. The rest of America would be picked up in another program for rural access and mobility in rural areas and smaller communities.

Then, on top of that, also our safety program, a lot of the safety issues are in rural America and a lot of the improvements that would be made in that program would be on routes that are in rural America.

So I think that when you look at the overall recommendations that we have, there will be plenty of targeted investment in rural America to make sure we preserve a national network and that we provide access to all of America, including our small communities.

Mr. RAHALL. Thank you. Thank you, Jack.

Mr. Chairman, that concludes my questions. I appreciate it.

Mr. OBERSTAR. I thank the gentleman especially for raising that point. I note that point four in the ten new Federal programs recommendation deals with connections to smaller cities and towns, and I think that is an appropriate recommendation.

The gentleman from Ohio was very generous and forbearing, allowing former Chairman Young to proceed ahead of him. Thank you. The gentleman is recognized.

Mr. LATOURETTE. It is my pleasure and thank you very much, Mr. Chairman. I think actually the former Chairman bumped Mr. Nadler, but I am happy for your gratitude.

Mr. Schenendorf, welcome back. There are days when I wish you were back with the Committee. As proud as we were of SAFETEA-LU, I kind of felt the Administration rolled us a little bit on that bill, and we could have used some of your brass knuckle approach that you employed in TEA-21 in negotiating with the other body and with the Administration.

Mr. Rose, always good to see you.

Mr. Weyrich, you and I have never met, but actually it was a seminar that I attended in 1993 at the Free Congress Foundation that propelled me to become a candidate for Congress. Although I never became the conservative Mr. Mica wanted me to be, I appreciated the instruction that I received.

Mr. Schenendorf, you mentioned the magic words and, Mr. McArdle, I am glad you mentioned Mr. Nadler because when we do these bills, the donor-donee State issue raises its ugly head. I will say on the record that New York City and New York State has no fiercer champion than Jerrold Nadler when it comes to defending the right of New York to get all the money from Ohio and any other State he can get it from.

[Laughter.]

Mr. LATOURETTE. But I would say, when you are talking about whether it is breaking the mold and making omelets or whatever the case may be, I think you have hit the nail on the head in your comment that when Dwight Eisenhower and others envisioned the national highway system, people knew what they were getting.

People in my State ask questions sometimes, particularly in light of one of the items that has received a lot of the attention in your report is the other rather suggested increase in the fuel tax. People in my State do ask questions, and they say if you are going to ask us to pay up to 40 cents a gallon more, are we going to be building roads in Ohio or are we going to build roads for Mr. Nadler, even though he makes eloquent argument that he subsidizes farmers in Ohio and so forth and so on?

I guess the question I have of you: Did you all talk about the donor-donee State difficulty in crafting these recommendations and could you share with us, any of the commissioners, sort of the thoughts that you were having?

Mr. SCHENENDORF. We did talk about it. We talked about it extensively. I think the conclusion that we came to was that because of the under-investment that is going on in the Country and because of the lack of clear mission, that basically the needs are so great that every State says in the absence of a Federal vision, a common goal, we ought to get back as much as we can.

So you have all the States trying to get back as much as you can, and it affects Members of Congress. You have people coming to you and saying all these good projects that need to be done, and so you use the bills to try to deal with that.

What we are proposing here with these performance-based standards are programs that people would see as being in the national interest, and they would be able to put that above the just grabbing the money to get it back. Consequently, these programs themselves, if people will buy into them and the vision that is in there, will restore to the program a sense of purpose and mission similar to what it had in the interstate system, where people were willing to put the common good.

Every State is going to benefit significantly from this program. Every district would benefit significantly, and it would benefit in a way that there would be clear goals that people would understand and government would be accountable.

We think if these kinds of reforms can be made, the people will be willing to pay for it because they will have a sense of what they are getting and they will feel a part of the process. All of these projects that would be funded would be coming from the bottom up through this planning process that would result in a strategic plan. So, all of America would have an interest in ensuring that this program was adequately funded.

Mr. LATOURETTE. I think that is a laudable goal. I do think, just to respectfully disagree, I think the pressure is on those of us that come from donor States and is going to continue to remain pretty significant.

I thought that Chairman Young and then Ranking Member, now Chairman Oberstar had a great notion in SAFETEA-LU that the way we solve the problem isn't to punish Mr. Nadler and take money away from him. It would be to grow the pot, so that other States reach a certain level.

If that is the goal and that is where we intend to go, I think it can work. But just saying we are going to continue as we are, I do think donor States legitimately have question.

The last question with my last 53 seconds, because of there reliance on an increased fuel tax, the report also recommends an energy security tax credit that would have as its goal to reduce our use of petroleum-based fuels. The question I have is I heard the Chairman's observation about we are selling more gasoline or using more gasoline.

Those two things together, while it is laudable to reduce our use of fossil fuels, if the main revenue stream is going to be as a result of the increased excise tax on fossil fuels, don't those two?

We had a little dust-up last year on the children's health care bill. I happened to be one the Republicans that supported it, but I found it a little anomalous that we were going to fund it with a cigarette tax and we had to create 11 million new smokers in order to get the revenue stream necessary to fund the bill. Aren't you doing the same thing with the gasoline tax?

Mr. SCHENENDORF. Well, I think the gasoline tax in the interim. We are proposing to shift over to a Vehicle Miles Traveled fee as soon as we can. I mean we have provisions in there to try to hasten that transfer, but in the interim period, I think we see the fuel tax as the way to raise the funding and raise the significant amounts that will be necessary.

The replacement, part of the stream would go toward basically hastening replacement fuels and bringing them online. Of course, they could ultimately have a user fee also. I mean as we go forward and we see what these replacement fuels are, it may be that that is a possible source of revenue as well.

So this is all going to have to play out over time, but we think we are trying to push the program in the right direction while making use, from a revenue perspective, what we have in front of us today.

Mr. LATOURETTE. Thank you.

Thank you, Mr. Chairman.

Mr. OBERSTAR. I thank the gentleman.

Mr. Nadler, by the way, we have 6 and a half minutes remaining on this vote and 365 have not voted yet. You have plenty of time.

Mr. NADLER. Thank you, Mr. Chairman.

Let me just briefly comment on the donor-donee thing and then get to the question I wanted to ask.

The donor-donee thing is obviously if people realized that there are artificial limits on how much. For instance, New York has 33 percent of the person miles on mass transit, and yet there is an artificial limit of 15 percent in the law in how much mass transit aid any State could get. If you abolish that, you might start getting a little more fair.

Plus, the fact that if you don't look only at transportation accounts, New York State has a balance of payments deficit with the Federal Government between 14 and 18 billion dollars a year. The one account where we have a balance of payments surplus is suddenly the one that is unfair, but we will save that for a different day.

I gathered from looking, from reading the report that the basic idea of the report—I don't want to ask a question on this though—is to give the money functionally and to abolish the block grant allocation formulas, and that is not a bad idea.

But my question goes to freight rail. The report observes that there is a shortfall in capital funding for freight rail, that the railroads can't raise the money themselves sufficiently, that assuming the revenues increase with tonnage and railroads maintain their current level of effort for capital expansion, there will be a big shortfall.

Options for funding, all a part of the shortfall, include investment tax credits, PPPs, customs duties and container fees depending on specific characteristics, but this does not seem to envision any action to supply enough funding to increase market share for rail as opposed to less energy efficient forms of transportation which, given the congestion on our highways and given global warming and everything else we are talking about, it seems we should be going to.

So my first question: Is it envisioned that the general proceeds of the gasoline and other taxes that we are talking about could be used for freight rail on a functional analysis or would this be walled off? If so, how do we get sufficient funds to look at increasing market share for freight rail as the environmental and efficiency considerations would seem to indicate that we should do?

First, I think Mr. Rose, then Frank McArdle.

Mr. ROSE. Congressman, that is a question we talked about a lot, and this freight rail study we did is really the first time that the Country has ever taken a look at the national freight railroad network. I run one of the railroads. We know exactly what our capacity is, what our bottlenecks, but we never brought these major railroads together to look at how the whole Country flows freight.

Clearly, what we struggled with was how to get modal shift, how do we get market share shift to increase more freight rail in conjunction, not against the trucking industry, quite frankly, as a partner with them. We did not resolve that in the study itself, and so these numbers that we are talking about in terms of the size of the investment of $147 billion is really just to stay up with some sort of gross ton mile growth around 2 to 2.5 percent which is what we get into is the compounding of that result requires that kind of capacity.

So we did not. We were not able to address what would it take, what would it cost to increase another 1 percent or 2 percent or 3 percent of market share shift.

Mr. NADLER. Is it envisioned in the report that this Commission, NASTRAC or whatever it is, under the functionality concept could use general revenues from the system for freight rail if it judges it advisable in a given thing?

Mr. ROSE. Yes.

Mr. NADLER. Thank you.

Mr. McArdle?

Mr. MCARDLE. Yes, I think it is critical to understand that these programs, particularly the freight program and the metropolitan mobility, truly intersect in the metropolitan areas where we need critical investments to expand capacity in freight rail. We need to add a port the equivalent of Seattle and Tacoma every year to our port capacity, but we need to add those connections as well, and those are most critically to be rail.

Again, a discussion you and I have had over many years, as you know Congressman, and you actually made provision if you recall when you did residential development on the West Side, that we in fact have facilities examine in hopes of preserving and expanding rail's market share into Manhattan. It is critical that we do this and that we have bottom-up planning in the metropolitan areas that accommodates freight and makes the kind of capital investments that make freight work where the most difficult congestion problems are confronted today.

Mr. NADLER. Thank you.

Mr. OBERSTAR. We will recess the Committee hearing. We have six, possibly seven, votes on the House floor, and that could take the better part of an hour which would give the Commission members time to refresh themselves in our sumptuous environment in the Rayburn cafeteria, following which we will resume the hearing. We will send runners to notify you when that will be.

The Committee stands in recess.

[Recess.]

Mr. OBERSTAR. The Committee will resume its sitting after the recess and the extended votes with apologies to our witnesses for their long interruption.

Next on the list is our colleague from the State of Washington, Mr. Baird.

Mr. SCHENENDORF. Mr. Chairman, just before we start with the questioning, I just needed to say that we had a couple of commissioners, because of travel arrangements, that had to leave and we have somebody who may have to leave during the questioning. I just wanted to let you know, all because of prior travel arrangements.

Mr. OBERSTAR. Thank you very much. I assumed that there would be difficulties for some of the commissioners given the extended voting that just occurred. In fact, we are having a fallout of Members who had travel plans and, newly liberated by the last vote of the day, chose to report home to constituents.

Mr. Baird.

Mr. BAIRD. Thank you, Mr. Chairman.

I thank our witnesses for your excellent testimony earlier today and for sticking around. We hope the remaining time will be worth your while. It certainly will be worth ours.

I was just earlier this morning over in the Budget Committee where the big focus, of course, is on an economic stimulus package. The alliterative vernacular there, I think, is targeted, timely and temporary.

I would prefer that it be practical, permanent and paid for. It strikes me that infrastructure investment is, as was discussed earlier, one way to do that. As opposed to a temporary influx of a tax cut or some other thing which will, I think, be rather evanescent, I would rather have us do something that creates jobs immediately and creates an infrastructure resource that will maintain the economy for some time to come.

So, when you get a chance, substitute those three Ps of practical, permanent and paid for, for the three Ts that are so popular right now.

Mr. Skancke, this is meant, as I mentioned to you personally a moment ago, as a friendly question really. I have long had a concern, as have many of us on this Committee and elsewhere, about the delays and expense that go with some of our regulatory processes, however well intentioned they are.

You cited a figure for if there is a single dollar spent, you can add 10 years to the project. In just a minute, could you tell me the source of that and how this derives?

I have a couple other questions, hence the one minute restraint.

Mr. SKANCKE. Sure, Mr. Chairman, if I may. Congressman, we got that in testimony from the Nevada Department of Transportation as well as from CalTrans and just about every DOT across the Country. For example, in the State of Utah, they don't put any Federal dollars into their major projects program because it slows the process down 10 years.

Mr. BAIRD. Has there been a breakdown, an analysis specifically of where the delays derive and where the expenses derive?

We have a major cross-river project, and I was how looking at how some of the initial money was spent. A fair bit of money anyway had been spent to translate this EIS into multiple languages without necessarily any realistic understanding of whether or not it was people who spoke those languages were desperately interested in the EIS for the project.

Are there other things that we can look at that says this is superfluous, it doesn't necessary help the environment or help the process but costs us money and costs us time? Has someone done that analysis?

Mr. SKANCKE. We have, Congressman. It is on pages 12 and 13 of our report in Volume 1 that outlines the process by which a lot of these agencies could review these at the same time. In fact, is it necessary to have a preliminary and a final EIS statement done when, in fact, most DOTs know within the first 90 days of the environmental process pretty much what is going to come up in that process? So do you need to do a preliminary and a final?

Agencies need to coordinate better. Give them the authority. Give the department the authority to coordinate with the Army Corps of Engineers and EPA and all the other agencies that are reviewing a document. It should not take two to three years for those agencies to review those documents.

Mr. BAIRD. One of our issues has been to try to promote parallel processing of permits versus serial processing because what we find in our region is that sometimes, at the end of the day, the third agency who is supposed to give you the permit tells you to do something different than the first agency and you are back literally almost to or maybe worse than square one.

One of the discussions earlier had to do with if we do gas tax or congestion pricing, that may affect residential choices. I respect the concern about that, but it seems to me that a portion of our congestion mitigation, however we do it, ought to actually address this decision of you may think you are buying a house for "cheaper," 40 miles from where you work, but what is your time worth, what is the commute worth, et cetera?

Someone once told me that one of the best ways we could reduce commute times was put more money into inner city schools because when you ask people why they live in the burbs, it is so they can get their kids a quality school. It would be much more of a win-win to invest in inner city schools, so every kid could get a good education, and we wouldn't have to drive to work so our kids could get educated somewhere else as some people say.

Any thoughts or anything in this document—I haven't had the chance to peruse it yet—that talks about this kind of decision process or alternative mechanisms?

Mr. SCHENENDORF. I think that our metropolitan planning, our metropolitan program that we have, the performance standard, would address it, and Steven Heminger is our expert on that.

Mr. BAIRD. Steve?

Mr. HEMINGER. Congressman, I think the idea we had with the metropolitan mobility program and vesting that accountability and responsibility in officials in those areas is that they are in large part the same officials who are making local land use decisions, and I think putting the responsibility on them, frankly, will marry those two subjects together a lot better than they are today.

Too often, we have local land use decisions trying to match up with State or multi-State transportation decisions, and the match doesn't occur, and so our idea with that program is to try to place that accountability and responsibility where it belongs.

Mr. BAIRD. As policy-makers, what it often leaves us doing is somebody decided we would build X new development, X miles away from the center of the city, and then they come to us and ask for the earmarks to build the transportation 10 years too late. You are always sort of chasing your tail, and it doesn't work very efficiently.

Mr. HEMINGER. And Jack did talk earlier about the fact that we do need to go a long way to restore public confidence in the program. I think one of the things that really frustrates the public is they don't know who is it on traffic congestion, and it is so easy to point the finger at somebody else. It is the business that locates here. It is the local land use decision. It is the Federal Government because they won't provide the funding.

We are trying to instill in all of our recommendations with this performance approach a level of accountability, so the public, once we make a promise to them, they can track our progress in trying to fulfill that promise.

Mr. BAIRD. Mr. Chairman, could I be indulged for one last question?

One last question, actually a comment, Mr. Weyrich, I very much appreciated your observation of the merits of investment in mass transit.

I serve on the Budget Committee, as I mentioned, and one of the things we hear a lot in that Committee is the need to do dynamic scoring of tax cuts. I think we also ought to do dynamic scoring of infrastructure investment.

Here is a case I think you illustrated well where investment— and someone else on the Committee also was talking about, this gentleman—that investment in infrastructure spurred vast increase in value and economic development. I would just open that briefly for comment.

Mr. WEYRICH. The street car line in Portland, only 4.5 miles, has spurred $3.5 billion in economic development.

But you talk about a stimulus package. For example, Salt Lake City is ready to go on two more light rail lines. They have done the preliminary engineering, and you could give the money tomorrow and they would hire people and start construction.

Mr. BAIRD. That would be practical, permanent and paid for.

Mr. WEYRICH. I dare say that this is true of other systems because many of them have another branch that they want to build. I mean the minute Charlotte opened their system, right away there was talk about, well, we want one here and we want one there. So I strongly urge you to examine that.

Mr. BAIRD. I appreciate the comment.

Mr. McArdle?

Mr. MCARDLE. If I might.

Mr. OBERSTAR. Just one moment on that before you proceed and I will certainly recognize you but following up on Mr. Baird's question to Mr. Weyrich. The Federal Transit Administration has established a cost effectiveness index for rating transit projects. How do you calculate into the cost effectiveness index the investment consequence of a decision to build that commuter or light rail project?

You cited the billions of dollars investment in Washington, D.C.. Over $30 billion of investment has taken place along the metro stops created for Metro.

In Dallas, Texas, on the Dallas Area Rapid Transit West, the 20 mile line generated $1.2 billion in private sector investment. Before they put a shovel in the ground on DART East, on that 20 mile segment, $120 million of private sector investment was announced a couple years ago when I was there at that moment.

All those are investments in the community. They generate economic activity. Why can't they be calculated into the cost effectiveness index?

Mr. WEYRICH. Well, they ought to be and they are not. The Department does not recognize any of the potential of any of these lines. Even a mere street car line can generate all kinds of economic activity, but they won't allow us to calculate that in as to the advisability of building it or not.

Mr. OBERSTAR. I would suspect that Mr. Rose, in deciding whether to add a second line or a third line on freight movement, would look at the benefits to be derived from that investment.

Mr. ROSE. We have. I mean that is exactly how we do projects, but again it is a little easier for us because we are able to control our own destiny around those investments.

Mr. OBERSTAR. Thank you. I appreciate the opportunity to interrupt. Please proceed, Mr. McArdle.

Mr. MCARDLE. Congressman, I think you can look as well to what has happened on the New Jersey Gold Coast to see the advantage of light rail investment. I think New Jersey Transit itself has been extraordinarily surprised by the amount of net investment that has occurred there along the coast opposite Manhattan where people have, in fact, used the light rail to site not only offices but in fact residential developments and the like, all of which contribute net to the community.

But I did want to make one point. You have picked up on the question of investment now, and I would urge you to go back and look at the accelerated public works programs which I am sure the Chairman remembers and others do.

Mr. OBERSTAR. Oh, yes.

Mr. MCARDLE. I was on the New York City side of that equation and was pushing and managing those programs for the City of New York in the middle seventies. We learned a lot about how to make those things work quickly, and it took a lot of effort, as it always does, to make those programs work.

So, as you are going forward to consider that as an economic stimulus, I would urge perhaps to invite back those of us with less and less hair to tell you of what worked for us because we really did have to reinvest in the city to get programs out quickly to make things work, and they were a lot of small projects, nothing big, lots of small projects. It was very successful. Lots of infrastructure is really where it paid off.

Mr. BAIRD. It is an outstanding example. Insofar as public tax expenditures are fungible relative to direct investment, it is all money we don't have, but we are spending.

I would hope our leadership and the bipartisans and the Administration would say if we are going to put $100 billion into a stimulus, I would rather see us give a guy a job and a way to work than just a temporary tax cut. That would be my bias.

Thank you, Mr. Chairman, for your indulgence and thanks to the witnesses.

Mr. OBERSTAR. Mr. Petri.

Mr. PETRI. I appreciate the tremendous effort you have all put in. You know it is appreciated when you have the turnout the Chairman spoke of earlier and a standing room only audience at this hearing and a second hearing room filled with overflow crowd. It is being recorded, and it will be broadcast, I suspect, repeatedly on C-SPAN and other channels.

It is something that is the beginning. It is a final product of your deliberations, but this is something that is hopefully a building block for us to actually turn around and come up with a more modern and appropriate way of investing in our Nation's infrastructure going forward.

We don't need to sell anyone on this Committee, and I suspect very few in the Country, on the fact that at the end of the day we have to fix the roof of our house. We have to fix the infrastructure of our Country, and we have to expand it to account for changing technology and changing demands in our society if we want to succeed.

The bottom line to me is that we pay one way or another. We pay through waste and missed opportunity and inefficiencies, or we pay, invest and benefit from a more efficient system and a higher standard of living, higher quality jobs, and a more pleasant lifestyle.

So this is very important stuff, and I do hope that this is not the end of the road for you and your commitment to it. I hope that you will be willing as commissioners to spend some time, helping to explain your work to editorial boards around the Country, to public talk shows and other fora that are appropriate and that you will participate as we try to figure out how to develop some momentum for probably, maybe a piece or two in this Congress.

But we reauthorize this program in the next Congress, and we will have a new Administration one way or another. Each Administration takes the successes and it has to build on areas that have been neglected. This is an area, as a Country, where we have been marking time and we have been neglecting our obligations. We have to figure out how to change that, and you are part of the solution to that problem. So thank you very much.

Mr. OBERSTAR. I thank the gentleman. Very thoughtful, I couldn't have said it better myself.

Mr. Larsen.

Mr. LARSEN. Thank you, Mr. Chairman.

Mr. Chairman, I hope that you first noticed, at least on this side of the aisle, all the northwest Members came back to the hearing, and I hope that is taken into account as we move forward.

[Laughter.]

Mr. LARSEN. The Washington and Oregon delegations are well represented at this second part of the hearing. We will remind you if you forget.

Mr. SCHENENDORF. It is a lack of travel luck.

Mr. LARSEN. Yes, it has to do with lack of flights out of D.C. more than anything.

Mr. SCHENENDORF. Their planes don't leave until 6:30.

Mr. LARSEN. Where is Eleanor Holmes Norton?

[Laughter.]

Mr. LARSEN. The first thing I wanted to note and perhaps for Mr. Schenendorf, Washington State has the largest ferry system in the Country measured by vehicles and by passengers. It is certainly not a tourist attraction. It is a major part of our transportation system, and I noted it is considered part of the highway system. Former Senator Magnuson was able to make that happen.

I note a lack of conversation about that ferry system or San Francisco's or New Jersey, New York or North Carolina and some of the other folks, Alaska as well. How does that fit into your thoughts?

Mr. SCHENENDORF. I think that we would view that as basically being eligible the way it is under the current program. We weren't charged with looking at water transportation, so there isn't much in the report on that.

But, again, when you get back to the performance-based standards, if you are looking at that metropolitan area and you are saying how do we reduce congestion by 20 percent by the year 2025, it is going to make the local jurisdiction look at all of the alternatives. Highway construction, mass transit, it is also going to be land use. It is going to be ferries. It is going to non-motorized ways of moving around, bike paths and the like, because they are going to have to put together a program that shows how they are going to get to a 20 percent reduction in the face of the growth that is coming.

So we would envision ferry service as being an integral part of that and basically, because it is eligible in today's programs, that type of thing would continue.

Mr. LARSEN. It is currently eligible for ferry capital construction and terminal construction, and the States are largely left with the operating costs, and those are largely passed on through rates to the folks who use them as well. So I just was curious.

Any other comments from anybody on that issue?

Mr. HEMINGER. Mr. Larsen, if I could, I certainly won't pass up an opportunity to say something nice about ferry boats because they are very important to our system in the San Francisco Bay Area.

I think it is fair to say that one of the unsettling things about our report is that generally we did try to strive for mode neutrality. The intercity passenger rail program is the exception.

In the current program, you can find them really easy. There is a ferry program. There is a bus program. There is a New Starts program.

It is unsettling when you can't find them right there in name, but as Jack indicated the notion with a performance-based approach and a benefit-cost analysis is the cream will rise to the top. I am very confident that in our large metropolitan areas, public transit investments, rail, bus, ferry will rise the top and those will feature prominently in these metropolitan mobility plans.

Mr. MCARDLE. I think, equally, you are going to find new areas looking at ferries because the road and the ability to build roads is so constrained. I know that Jacksonville, Florida is aggressively looking at ferries as an option on the Indian River and other places because they see that as a key. They clearly, as they do their bottom-up planning, are going to incorporate that in their capital investment program.

Mr. LARSEN. Okay. Mr. Rose, you sort of had the freight mobility section of the testimony. Two questions, I suppose, if you could touch on your comments in your testimony about the tax incentive for capital investment on rail and with regards to the second issue, the freight fee idea, whether or not you all contemplated a national freight fee so you didn't go State by State.

How did you propose and maybe build a wall around those dollars so it goes into freight mobility?

Did you envision it going only into freight mobility and did you envision it going only into rail or did it include waterside port investment? Did it look at grade crossings for truck traffic?

How did you envision the freight mobility dollars being used that could be generated?

Mr. ROSE. Sure, yes. The answer to the first question in terms of the size of the capital investment: Congressman Baird had to leave, but when we think about stimulus, what he was talking about, we roughly estimate that every billion dollars of rail construction results in about 20,000 jobs.

So we are very interested in finding ways. We have, for quite awhile, been discussing an investment tax credit, a stimulus that would simply provide a 25 percent investment tax credit to pull forward investments that might otherwise be used later.

As far as freight fees, first, we believe that global trade has really changed our transportation infrastructure and our transportation requirements. Certainly, you understand that with what you see in your area, and we are a big part of that.

When you look at the railroad growth over the last 10 years, containerism has been the number one driver, and we expect that to continue as we continue to trade globally and not just imports of goods from China specifically but now exports as well. And so, we know that this global trade is causing new distribution patterns, new traffic patterns.

When we think about a freight fee, it is not just for rail. It is also for highway. It is for intermodal connectors, getting in and out of the ports.

We didn't get into specifics, exactly how it would be spent, but again getting back to transparency, governance, accountability, other things that are so important.

Quite frankly, the easiest thing to do, I know it is not easy but would be to take a percent of the customs fee which is variable with growth in international trade. As I said earlier, a 5 percent customs fee would equate to about $2 billion a year. That would be a good first start.

We have also talked about a freight fee on top of that. The issue for customers is going to be, again, accountability, how those agreements, how those funds are going to be spent. I think if we can prove to our customers that they really are spent on rail and highway infrastructure to facilitate the goods movement, then they will be at least more accommodating to that.

The problem is there is a lot of history out there where freight fees go to pay for different things and not transportation-related. So we have a credibility issue that we will have to work through. But some sort of formula could be granted on an origination area and a destination area because the destination area also gets impacted, and we believe that all that could be worked out.

Mr. LARSEN. If I may, Mr. Chairman, in Washington State and this could also be in other States—I am just obviously more aware of my own—we have a Freight Mobility Strategic Investment Board. FMSIB, it is called. Its sole purpose is to consider the allocation of State dollars to freight mobility projects.

That is how, in Washington State, we direct available dollars directly to local jurisdictions, whether they are port or city or county, those jurisdictions, for direct investment into projects defined as freight mobility. Then there is an accountability because it is through this particular board. Other States may do that as well.

I am just curious if, again, there is any envisioning about the organizational structure, the flow of dollars like we run dollars through our MPOs and RTPOs, thinking about running freight dollars, identified Federal freight dollars through things like a FMSIB.

Mr. ROSE. Yes, we have a couple models, a couple examples of big projects. The Alameda Corridor is the best example. Again, it was made up of people from the ports as well as railroad people, very strict governance, very tight operating control. We had another one, Chicago CREATE, where we brought together the passenger agency, the commuter agency, the State DOT, the Feds, the railroads, the Metra.

Again, it is all about the governance and to make sure that the projects that are going to be developed really are very specifically related to decongestion and removing these choke points that we have on the system. So that is what our vision would be to be able to move a process like this forward.

Mr. LARSEN. Yes. Thanks a lot.

Thank you, Mr. Chairman.

Mr. OBERSTAR. I would like to now dig a little deeper into some aspects of your recommendations.

The first is the national strategic plan. Your describe how it will be stepped: Performance standards, detailed plans to achieve the standard, cost estimates developed, plans assembled into a national surface transportation strategic plan, and then only projects called for in the plan would be eligible for Federal funding, quoting from your report.

How do you propose to achieve that? What are your specific steps going forward or are you describing a broad concept and leaving it to the imagination of the Legislative Branch to fill in?

In responding, let me describe for you the setback we had in this concept. In the fashioning of the current law, SAFETEA-LU, as I traveled around the Country, I saw congestion choke points. Mr. Shuster and I did that in the preparation as you recall very well, Mr. Schenendorf, for TEA-21.

It occurred to me some years later after TEA-21 that we needed a major capital investment in those choke points, maybe six or seven or them. St. Louis comes to mind. Chicago CREATE comes to mind. New York City comes to mind. The Alameda Corridor region came to mind immediately. The Alaska right of way into Seattle came to mind, not excluding others but at least a half a dozen of these that would require in the range of a billion to two billion dollars, something that really rises to the level of a national economic impact.

We crafted a proposal with $17 billion committed to that concept. Then because of the Administration's intransigence on the total dollar amount, we scaled that number back. The whole package was scaled back.

It was an auction in reverse. We went from 375 to 350, then 325, then 300. Anybody go for 275? The auctioneer was going in the wrong direction. So we scaled that back. Eventually, in conference with the Senate, we wound up with $3 billion.

I said to our colleagues on the other side of the divide—those are the most difficult 200 meters in America to bridge—can we agree on a half dozen projects to make these investments?

Oh, no, said the other said. Oh, no. We are the United States Senate. We know how to make these investments.

So they chopped it up into little pieces and frittered a grand opportunity to make a major impact on America.

Now your idea has the advantage of taking it out of that milieu, putting it into some autonomous proposition, an auto de fe, as it is called in theater, operating by itself. How do you propose to do that and avoid the catastrophe that, frankly, we had in SAFETEA-LU?

Mr. SCHENENDORF. I think the way that we envision this happening and let me, just as a practical matter, maybe describe the state of good repair program as an example of how it would work to prevent the kind of thing that you were talking about. I think that we would model it very much in the way that the old interstate program was done.

Basically, what it would start as would be the Federal government and the States and local governments and stakeholders would develop the standards for state of good repair, so that when we talk about that, what exactly would that be. A lot of States have already done that to try to say here are the level of road conditions and bridge conditions that would have to be in order to be in a state of good repair.

Once you had those standards and they had been agreed to, then the States would go out and they would inventory their infrastructure against those standards. They would come back and say here are all the projects that we have to do in this State in order to bring our highway systems and our transit systems into a state of good repair and here is what that is going to cost.

In addition to identifying them, they would do cost estimates the way the interstate program had for each State in figuring out how much it was going to cost to complete the interstate system in that State. So there would be a cost estimate associated with the project to bring it into a state of good repair.

Then the Federal funding that would be providing for that program, you would have an overall cost estimate because you would have all 50 States added up just the way the cost estimate for the interstate was added up. Then you would have a sense of the total cost.

You would have a number of years over which you were going to try to bring the system into the state of good repair, and that would give you an idea of how much money each year you needed to provide for the program.

Then when you provided it for the program and each State got their portion of the money, the only projects that they could spend that money on were the projects that were identified in the plan as being what was necessary to bring it into a state of good repair.

Mr. OBERSTAR. That is a good answer as far as it goes. Does this approach envision scrapping the STIP, the State Transportation Investment Plan, the 20 year plan each State does and substituting therefore this broader plan?

Secondly, you say incorporating transit into that. Does that also mean that we would do away with the, roughly, 18.5 split for transit?

When the bill left our Committee, we had a goal of 20 percent for transit over the 5 years of the bill. In negotiations with the other body, that was scaled back. Would you eliminate that split altogether?

Mr. SCHENENDORF. These plans, I talked about the plan for one program, but you would have plans for each of the programs, and then they would be knitted together into this national strategic plan. That would substitute for the current planning process because this would have all the projects in it just the way the interstate cost estimate had all those projects in it, and it would replace the existing programs that guaranteed a certain amount to any particular mode and would basically be needs-based. I mean it would be cost to complete, and all of the costs that are associated with bringing transit into a state of good repair would be in there as well as the highway system.

It was our assessment that when you looked at all these performance-based programs, that there would be a huge increase for transit, a huge increase for intercity passenger rail as well as highway, that we would be basically funding the transportation solutions and that all the modes would do very, very well.

Mr. OBERSTAR. All right. So you would include in this plan the 162,000 miles, roughly, of our NHS. Anything that is within the NHS would be subject to the national strategic plan?

Mr. SCHENENDORF. Right.

Mr. OBERSTAR. In Wisconsin, let's say, Commissioner Busalacchi is not here, but say Highway 53 in Wisconsin, if it were scheduled for four lanes from Superior to Eau Claire, to be upgraded. Well, it is already four lanes. Say six, if they were going to upgrade it to six lanes, if that was in the plan, then that would be it?

Mr. SCHENENDORF. That would be funded on a cost to complete basis, whatever is in the plan to meet the performance.

Mr. OBERSTAR. But if the Milwaukee interchange were not included in the upgrade, they wouldn't be able to do it?

Mr. SCHENENDORF. If it were not included, they wouldn't be able to do it.

Mr. OBERSTAR. In the strategic plan.

Mr. SCHENENDORF. But the plan is based off the standards, so all of the needed transportation investments should show up in the plan.

Mr. OBERSTAR. How do you update the plan to accommodate changing demands of traffic?

Mr. SCHENENDORF. I think it is envisioned that the plan would be updated whether it is every two years or every five years.

Mr. OBERSTAR. As we did previously with the interstate cost estimate every two years.

Mr. SCHENENDORF. Exactly, every two, whatever you decided, there would have to be a periodic review and updating of the plan, and that would bring in new projects and it would change the cost estimates or existing ones.

Mr. OBERSTAR. Excellent. I don't want to pursue this further, but I have other similar or other aspects of it, of your proposal. We will go back to those.

Mr. LaTourette.

Mr. LATOURETTE. Thank you, Mr. Chairman.

This has been a long day for the witnesses, and I don't want to keep them a long time. But I think as I walked in you were talking about the projects of national and regional significance that were originally proposed for SAFETEA-LU, and I thought that that was terrible result that we wound up. Rather than having billion dollar projects that could really make a difference to the future of travel in the Country, we wound up with things that are chopped up and may now never get built. They put $100 million here, $50 million there rather than the billions of dollars that could have resulted.

I know that a number of us in Ohio were trying to get a $1.2 billion to reshape something effectively known as Dead Man's Curve, and it is called Dead Man's Curve for a reason, but that is not going to happen in my lifetime now as a result of decisions in the Senate. So I want to echo your remarks.

I forgot in my last remarks to thank all of you for your service, and I really appreciate the work that you have done.

Two, I am glad Mr. Nadler is not here, so I didn't lose any money in Ohio while I was out doing something.

But, three, there is one item of concern. We have used. When this Committee put in State infrastructure banks, when this Committee put in the design-build approach and other things, we have had some successes with attracting private capital.

For instance, the most famous example in Ohio is we have a large company in Columbus called the Limited. The Limited wanted an interchange off of Interstate 71, and they were required to pay for it because they were primarily benefitting from it. And so, I am encouraged that the report seems to encourage public-private partnerships.

What raises concerns, and I just need you to correct me if I am wrong, is that you appear to recommend that new regulations would replace the otherwise specifically negotiated agreements that State could make relative to the attraction of private capital and that we would have a national regulatory scheme of public-private partnerships as opposed to Ohio negotiating their deal, Wisconsin and Minnesota negotiating their deal. In my mind at least, it would seem that these new regulations could limit a State's ability to attract private investment.

If you could just share with us your thinking as to why you went that way in your recommendations.

Mr. SCHENENDORF. Sure. First of all, with respect to public-private partnerships, what we are focusing on is where there are really current prohibitions against these kinds of things which is on the existing interstate system. States and local governments that enter into public-private partnerships on new roads that are State roads or roads that don't have Federal money in them, not on the interstate system, that is up to the States. They can decide whatever they want to do.

The question is on the interstate system right now, tolling, these kinds of agreements, congestion pricing, they are prohibited. They can't do any of them. States can't do any of them today.

So the question is if you relax that prohibition and you say okay, here, we are going to allow this to occur, would there be some conditions that you would place on these agreements in a general sense in order to protect the public interest because this is the interstate system and it is something that the Federal Treasury has paid for?

The same way in aviation, we prohibited taxes on passengers flying. We then allowed the PFC to be put in place, but that has conditions on it. There is only so much you can put in. It is a certain amount of money that has to be used for certain purposes. It can't be diverted off the airport. That is the kind of thing that we have here.

I think these are common sense requirements that we are proposing, and so I do not believe that it is excessive regulation or that it is trying to regulate something where the States can already do something because the States today can't put any of these public-private partnerships on the interstate system.

Mr. LATOURETTE. Thank you very much.

Thank you, Mr. Chairman.

Mr. OBERSTAR. Back to Mr. DeFazio.

Mr. DEFAZIO. Thank you, Mr. Chairman.

I was talking to staff. I was trying to remember the number for maintenance and repair on an annual basis, the portion. What do you think? Is that a 110 to 140 range? Was that it?

Mr. HEMINGER. Congressman, I believe the figure we quote, we have an investment gap of about $140 billion. The total need is about 225 per year, all levels of government, and roughly half of that, we estimate is rehabilitation.

Mr. DEFAZIO. So about 110, roughly.

Mr. HEMINGER. Correct.

Mr. DEFAZIO. Okay. So here is the question that I would have put to Mr. Geddes if he was here. Who in the private sector is going to want to invest in rehabilitation of the existing system?

Mr. HEMINGER. Congressman, I have tried to address that question in other public fora, and I scratch my head and don't know any investment banker that thinks they can make money on that. That is why I think it is important that we talk about the finance questions not in the abstract but very practically.

In my view, I think in our view, where private capital will be most attracted is in new capacity in high growth areas and, frankly, the more the merrier. If we can attract as much of that as possible under conditions that protect the public interest, we think that is great.

They are generally not going to be interested in rehabilitation. They are not going to be interested in a lot of projects in areas that aren't growing as quickly, where the dividends won't be as high. So I think we have to acknowledge that there are limits to that strategy just as there are limits to any financing strategy, and one of the huge limits is on this question of repairing our existing infrastructure.

Mr. DEFAZIO. There are even new capacity issues. I was going to use a specific example. We have something, a need identified by the State DOT in Oregon, something called the Newberg-Dundee Bypass outside Portland, a rapidly growing area. Basically, we have the old State highway there. It is a real problem.

My State went out and actually had Macquarie come in, paid Macquarie to come in and do analysis. Macquarie said, yes, we can do it. We can build it, but if we build it, you must toll the existing infrastructure to drive people onto our facility so we can make money. That was kind of the end of the conversation.

I think there are very severe limits here, especially again, Mr. Geddes says here that there is a very low rate of return to transportation projects. At the same time, we are going to finance everything, including maintenance, with the private money. It doesn't quite add up in my mind.

I guess one other issue I would raise is you guys include, as I recall, indexation as one of your factors, and we haven't indexed. Roughly, according to analysis I have seen, we lost about 28 percent of the purchasing power between 1993 and 1996 and in the last 3 years, it looks like about 10 percent a year because of the costs, the run-ups in construction.

By the rule of sevens, the Federal investment in infrastructure under the Administration or the minority report proposal would be halved within ten years.

Mr. HEMINGER. Congressman, if I could also mention, I think it is important to look at the modal question as well. I think it is probably the case that private capital will be more interested in highway capacity that can be tolled, freight capacity that can be freed, so they can generate income and pay themselves back.

Transit projects, by and large, as you know, require a public subsidy for their continued operation. Now there are some. We are building a project in San Francisco in the Bay Area at the Oakland Airport, where we think that incremental piece of the system may generate a surplus, and so there is a revenue stream.

Mr. DEFAZIO. That is the one to the Oakland Airport?

Mr. HEMINGER. The Oakland Airport Connector, correct.

Mr. DEFAZIO. Is that a PPP or was it?

Mr. HEMINGER. It is.

But, by and large, I think a lot of public transit projects will not be of the nature that they can generate a surplus to attract private investment. So that is another whole class of important improvements that may not be amenable to that strategy.

Mr. DEFAZIO. Mr. Weyrich, when you pointed out, I was fascinated that you could just quantify the returns we are getting out of some of this transit investment, the rail and light rail and street car. Somehow, I mean maybe we could put your folks in touch with the FTA folks. They say they can't quantify that, and the Chairman referenced that in terms of the cost-benefit analysis.

Mr. WEYRICH. We have met with them and argued the case as has the head of the street car coalition, and they are just blinded to the subject. I mean it is not a case of they are not having the information. It is a case of they are not willing to listen to the information. I am sorry that that is the case.

Mr. Simpson is a friend of mine. He says he has read all of my publications on transit and so on, but apparently he hasn't learned much.

[Laughter.]

Mr. DEFAZIO. Well, I am not sure I identify him as the root of the problem.

Do you do analysis to the level of this much?

Of course, part of the Portland street car was funded by the local improvement district. So we did put some costs on the developers, and they assumed those costs willingly because they knew they were going to come out ahead.

But have you done analysis which would go to the point of these products produce this much economic activity and the tax returns out of that to the local government or the Federal Government would be about X?

Do you show what kind of ultimate return if you want to look at it as we put the money out, how much of it we are ultimately realizing back in terms of the increased economic activities?

Mr. WEYRICH. I believe we have.

Mr. DEFAZIO. I would like to get a look at that.

Mr. WEYRICH. My colleague, Bill Lind, has done a lot of that activity.

Mr. DEFAZIO. He did? That would be helpful.

Mr. WEYRICH. It is almost predictable today if you have the right kind of corridor. Now, if you don't and you are not serving areas where people want to go, then you can't get the development that we are talking about. But given that you are serving an area that people want to traverse, I think it is fairly predictable what kind of result you will get.

I mean even my little city of Kenosha, Wisconsin has generated all kinds of housing and museums and buildings and so on, and yet they want to extend the line four miles. They have been very frugal. It is the lowest cost line in the Country, and yet FTA won't give them a dime.

Mr. DEFAZIO. It doesn't meet the cost-benefit analysis.

Mr. WEYRICH. Yes. Yes, exactly.

Mr. DEFAZIO. Okay. Just one other, again, I am sorry because I hate to pick on people when they are not here, but I will refer to the minority report and not necessarily to Mr. Geddes.

The congestion pricing which they advocate, I don't see any recognition. It seems to me congestion pricing should follow, say, the construction of the mass transit alternative. You want to say to people: Okay, we want you out of your car, but hey, guess what? You can get there in a more fuel efficient way in a comparable amount of time and not an extortionate expense.

As opposed to that, it appears to me that they may be saying we are going to use the congestion pricing to begin to build alternatives or other projects, which seems to me really kind of perverse or inverse in terms. I think you touched on some of those issues in a way in the report.

Mr. MCARDLE. If I might, Congressman, From the perspective of New York, which some people would have to be the first of the congestion question.

Mr. DEFAZIO. Yes.

Mr. MCARDLE. Most of the people who now drive into Manhattan are doing so in large measure because either they are subsidized or they live in areas that were developed without mass transit, particularly in the outer boroughs of New York City and out on Long Island. They are not driving in because they want to necessarily. They are driving in because it is simply the fastest way to get into Manhattan. They don't have a mass transit option.

If you are going to price and then not give them a faster option, people are going to walk out the door in the morning and, if it is snowing like today, they are not going to want to walk to a bus stop and then spend more and more time. They are going to hop in their car.

You will never actually change people's behavior until you give them a ride that is a comparable in comfort to what they get in their automobile, and that is really what we are advocating.

Mr. DEFAZIO. I think that is an excellent summation.

I would go on to observe that both you, the Commission as a whole and the minority, and the Administration have criticized earmarking. I would note that the congestion pricing in New York is being driven by an unauthorized earmark of funds by the Administration, and they are essentially bullying New York into adopting congestion pricing and have given them a deadline by which they must have congestion pricing. As opposed to this growing out of a local concern, it is being dictated to them.

Mr. MCARDLE. I have made an observation, Congressman. We already have congestion pricing in Manhattan. You can pay 60 and 70 dollars a day to park your car, and people pay it because they have a car, tourists particularly, out-of-towners. It is just not a public price. It is captured by the garage owners and everyone else. So you are already paying a congestion price.

Adding $3 to somebody who is now paying $70, half of whom are already getting it subsidized by their business, is not going to change behavior. People are driving. It is because they have to, not because they want to.

Mr. DEFAZIO. Thank you. Thank you. I appreciate it.

Mr. SCHENENDORF. Could I just add a point on the congestion pricing?

Mr. DEFAZIO. Yes.

Mr. SCHENENDORF. On the congestion pricing, we tried to, in our report, suggest some conditions that would apply in these kinds of settings because it all gets down to the deal. Part of the thing in congestion pricing people say is, well, if you can congestion price, that will generate revenue that you can then invest in the corridor and to provide alternatives. It would provide expanded capacity.

But if you look at the arrangement that was just agreed to in Northern Virginia where you are going to be paying the one that I cite in my testimony which is the five or six dollars average per trip, the congestion pricing revenues that come from that are going to the private sector for unlimited profits. There is no cap on the profits. None of that money is going back into providing alternatives or into expanding capacity.

So the way that the deal is set up and how the revenue stream is used is a very important issue when discussing these things. Sometimes it is going back into or could be used for alternatives. Other times, it is being siphoned off and is just going to go. For that particular deal, the private sector gets to keep all of the money subject to no price limitations whatsoever.

Mr. DEFAZIO. I wasn't aware of that. Thank you for pointing that out.

Thank you, Mr. Chairman.

Mr. OBERSTAR. Mr. LaTourette, have you a second wind?

Mr. LATOURETTE. All set.

All set. Then I have a few more.

Commissioner Weyrich, did I hear you say my little City of Kenosha?

Mr. WEYRICH. Well, I am from that area.

Mr. OBERSTAR. Well, just parenthetically, I have three precocious granddaughters living in Kenosha.

Mr. WEYRICH. Really?

Mr. OBERSTAR. Whom I come to visit frequently and have seen the trolley and rejoice in its rejuvenation and have seen the investment that it has created and the re-stimulus or stimulus that it has provided to the Kenosha economy. I was thrilled with your observation about it as a prime example of success in transit.

Mr. WEYRICH. You know how little that system was built for.

Mr. OBERSTAR. Yes.

Mr. WEYRICH. I mean it was under $4 million a mile. You get these grandiose systems, $20 million, $40 million a mile and so on, and it is making the consultants rich. But you see where it can be built for much less and still be very functional and really beautiful in the landscape there against Lake Michigan.

Mr. OBERSTAR. Exactly, exactly, it is marvelous.

One of the greatest dis-services that was done to transportation was the development by the U.S. Post Office at the time, not U.S. Postal Service, of hub and spoke distribution of mail. Some hotshot came up with the idea that it would be a great idea to take a letter mailed in Chisholm, my home town, to Buhl next door, five miles away, and drive it 90 miles to Duluth, sort it and then drive it 85 miles back to Buhl from Duluth to be delivered instead of using the railway post office where it was worked overnight and dropped off very efficiently.

Then the railroad convinced the Postal Service to take the RPO out, and then that segment was uneconomical. So they could apply for discontinuance to the ICC and drop their LCL service as well as their passenger service, and our rail passenger service disappeared across the whole iron ore mining country of northern Minnesota.

Mr. Weyrich?

Mr. WEYRICH. At the time that this was occurring, 1967.

Mr. OBERSTAR. Exactly.

Mr. WEYRICH. I was working for the late Senator Gordon Allott of Colorado, and we asked for a GAO investigation of what was happening. They came back and said that a fellow by the name of Hardigan had initiated 364 illegal contracts with Sedalia-Marshall-Boonville Stages, an airmail taxi company, to which he then became vice president after he initiated this.

We asked the Justice Department to move on it, but of course they were dis-inclined to do so. There is one of the swindles that took place at the time.

Mr. OBERSTAR. Very, very keen observation.

A very sad chapter in the history of transportation because legion are the mayors of communities that invite me and have done over years to come and look at the transit systems, the trolley systems, the light rail that they once had in place and ripped up after World War II because of the automobile. Now they want to replace that transit that they once had. Boise, Idaho is a prime example.

They want to recapture that lost past, and we have to help them do that. You rightly point out the intermodalism that is needed to do so.

On price versus faster option, a very, very keen observation, a ride comparable to what you get in your automobile. Some have heard me cite my own personal experience. I won a scholarship when graduated from St. Thomas College in St. Paul to study at the College of Europe and Brugge, Belgium, European Economic Studies at the time of the creation of what we know today as the European Economic Community.

I traveled. Well, this was before aviation. So I traveled by passenger rail to the East Coast from Minnesota, the Queen Mary to Le Havre, rail to Paris, rail from Paris to Brussels to Brugge, a six hour trip from Paris to Brussels. May of last year, that 6 hour trip was 80 minutes on the TGV.

I also traveled to Perpignan, 288 miles. It was four and a half hours by steam locomotive. Now, 29, 30 years later, that same trip was two hours and one minute with school children writing homework on the train, a ride comparable, better than what you get in your automobile. We need to be able to do that in the United States as well.

China is investing $162 billion in that kind of high speed passenger rail. They are investing that much or somewhat less than that but billions in freight rail to the interior of the country.

In the Minneapolis-St. Paul area, travelers just going to work and back spend $2 billion a year on parking fees. That money could be better invested in a regional transit distribution system.

Your report spends a good deal of time and numbers of pages on the VMT, Vehicle Miles Traveled financing, and you raise four principal issues—evasion, privacy, wear and tear, administrative costs—and suggest a goal of 2025 of getting to that financing method. In your deliberations, do you think there is a way of short-cutting that time frame?

Mr. SCHENENDORF. I think we have tried to make some suggestions on National Academy of Sciences work, additional pilot projects that would be more expansive than the Oregon case to try to accelerate the time frame that it would take. There are just a lot of unknowns here.

There are some breakthroughs. The technology is such that they can be put in automobiles pretty quickly if it is going to develop a way to retrofit existing vehicles to allow for the technology. So I just think there are a lot of unknowns here, but the goal is to try to get to that kind of VMT fee as quickly as one can, assuming these problems can be overcome.

Part of it too will depend upon what the replacement fuels are as we go forward, how we power our vehicles 10 years, 15 years from now. If all of a sudden, there is one fuel that replaces the current motor fuel, then it is conceivable that that would be another method of raising revenue. But on the assumption that is not going to really work, then it is really the VMT that would be the main goal, and we think we are recommending things to get here as quickly as you can.

Mr. OBERSTAR. Is it a consensus among the commissioners that the VMT is a long term viable, responsible substitute policy option, substitute for the current gas tax or user fee?

Mr. SCHENENDORF. I think it is and maybe from the commissioners here, if anybody had any reservations. The Transportation

Research Board has an extensive study that comes to the same conclusion. I think we came to a very similar conclusion.

There are lots of different things you can do with the VMT. There are lots of different ways it could be structured on pricing, on just a straight fee, various fees for different classes of vehicles. So, once you actually got the fee in place, there is a lot of different things you could do with it, but I think all of the commissioners that signed the report were comfortable with the recommendations.

Mr. OBERSTAR. And weight carried on the road surface, is there sort of a threshold below which you wouldn't factor in weight as a charge and above which you would such as heavy trucks?

Mr. SCHENENDORF. Well, you certainly could. I mean you could structure this any way that you wanted. I think it would be envisioned that similar to the different classes you have today, you would have different classes of vehicles under that system as well, including heavy trucks paying a different rate.

Mr. OBERSTAR. Is there additional backup material to this section in electronic form that you will be publishing?

Mr. SCHENENDORF. We have a Volume 3 which is going to be a virtual volume, if Susan is still here, and that is going to include a lot of the background materials for this.

Mr. OBERSTAR. I have staff who could access that for me. If I learn the computer, then who needs you?

[Laughter.]

Mr. HEMINGER. Mr. Chairman, if I could speak for myself.

Mr. OBERSTAR. Yes.

Mr. HEMINGER. Jack is accurate that we have signed the report and so we stand behind the recommendation, but I do believe the obstacles he has laid out that need to be addressed are not small. As you know and as we note in our report, there are currently about 1,400 taxpayers for the Federal fuel tax. With the VMT fee, it is potentially everybody. So the cost of collection is a very serious issue.

I also believe personally that the privacy question is one as well. Even though this kind of fee is being collected in Germany from vehicles, from heavy vehicles, in the United States, we have I think a different sense of privacy and civil liberties perhaps than Europe does and may be willing to tolerate less the level of intrusion that some may view this fee involves because it involves tracking the movement of your vehicle.

So I don't think they are necessarily showstoppers, but I do believe that the issues that we lay out in the report that need to be addressed are quite considerable and will take some time, both technically and politically, to get through.

Mr. OBERSTAR. That is a wise cautionary note.

Mr. McArdle?

Mr. MCARDLE. Congressman, the weight issue is critical and it is critical for the passenger vehicle as well as the truck. What I have heard from people is why should SUVs pay the same fee when they are imposing more wear and tear on the roads. So, something that respects the weight. The way power to weight works well, I think is critical.

On the technology side, I would simply point out to you that the mobile phone industry, both here and in Europe particularly, have worked out very effective ways of pay as you go collection systems, and that is really what we are talking about, something electronic that they use to capture that revenue and in fact to respect the kinds of privacy issues that are out there that become critical. I suspect that is the direction that we will be heading in.

That is a technology they use and have figured out how to maintain their revenue streams without the kind of evasion that everybody should worry about.

Mr. OBERSTAR. That is a very good observation, a very keen observation. I am concerned about weight on the road surface. Pavement condition is a factor in determining the investment portfolio into the future. Just as when the rail sector went to 286,000 pound rail cars, you had to develop heavier rail, steel rail, better ballast and better ties and going to concrete ties, in fact. Is that right, Mr. Rose?

Mr. ROSE. Yes, we did.

I think what we want out of the Commission report is for transportation in this case to be properly priced.

Mr. OBERSTAR. VMT is a good approach, but it is an appropriate cautionary flag for us. Don't expect it to happen overnight.

Freight movement is critical, as you have pointed out, to the future of transportation. Your report does not address one item that I have been nurturing for some time, and that is short sea shipping. This has gained success in Europe but has not found a home in the United States until just recently when I included it in our energy conservation package.

That is point to point shipping on the saltwater coasts and on the Great Lakes, a way of moving containers at lower cost to avoid congestion points and something that is not competitive with but complementary to, supplementary to rail shipment of containers.

It seems to me, for example, we are not going to, in a short period of time, break the Gordian knot of Chicago because we simply did not put enough money into Federal funds in the last transportation bill into that project, the CREATE project.

Bypassing Chicago by moving containers from, say, Duluth-Superior port that are coming in from Prince Rupert Island through Canada into the United States at International Falls and then some of them moving to Duluth and then going east relieves that congestion. It shouldn't take so long to move goods through Chicago as it does, but it does because we haven't addressed that problem.

Are you familiar with the concept of short sea shipping and do you have some comments there, Mr. McArdle?

Mr. MCARDLE. Certainly, it is something that people on the East Coast and the I-95 corridor are looking at aggressively because it is an effective alternative to trying to add lane capacity on I-95. I think you are going to see it emerge from Newport and Savannah through the Northeast largely because the truck congestion on I-81 and other places is so heavy.

I am also told it is being very aggressively pursued along the Gulf Coast, particularly as investment in the Panama Canal expands capacity to come through and bring containers into places like Tampa and the like. People are actively proposing it and investing in short sea shipping—say that fast—specifically to, in fact, feed the container volume along that area, given the kinds of rail congestion that they see emerging over time.

Mr. OBERSTAR. Any others?

Project delivery, I won't prolong this now, but project delivery is critical. I referenced provisions on streamlining in the current law. Do you have a section that expands upon that concept, Mr. Schenendorf?

Mr. SCHENENDORF. Yes, we have expanded upon that concept and, as I think Commissioner Skancke has indicated, this was one of the important areas that the Commissioner really focused on because even if we get the reforms of the programs and even if you get the additional money, in order to really earn back the trust of people plus to actually get these facilities in place, we simply have to shorten the time frame.

One of the ways we think that it will be easier is the performance-based programs that we are talking, the eligible projects. The solutions will be developed at the local level and up through the State. So the projects that are being funded will already have gone through an exercise with the public of this is what we need to do to reach the congestion target of 20 percent, and there will have been a buy-in at the local levels in those metropolitan areas.

All these different plans that are being developed and stitched together to be the national plan, there will be a lot of bottom-up planning and project identification which should make those projects less controversial when you actually get ready to go ahead and build them because they will have been in this plan that was developed in the way that the locals all had input at the time.

Mr. OBERSTAR. Well, there is much more food for thought in your report. As I indicated at the outset of the hearing, Mr. DeFazio will be conducting subsequent hearings on aspects of this report and on the various provisions of the existing SAFETEA law and our total body of transportation law.

But your report really causes all of us to rethink fundamental principles all over again. That is a big challenge, but that is one that we are up to on this Committee. At least, I am up to it. I know Mr. DeFazio is. I know others on the Republican side are. We are not going to stick our heads in the sand as this Administration has done.

We have to note that just because there are new alternative or synthetic fuels, their impacts on the Highway Trust Fund will not adversely affect the fund so long as we generate revenues from. If persons using hydrogen fuel are driving on the roadway, they have to pay their fair share and pay their way in using it. Those filling stations can be collection points. Electrical outlets can be collection points. We have to proceed forward on that.

Despite global warming and high gas prices, the internal combustion engine is not going to disappear from the road overnight. We have got 270 million of them on the road. Until China started building cars, we had 60 percent of all the cars and half of all the trucks in the world rolling on America's highways.

As your report rightly notes, the user fee collected at the pump will continue to be the backbone of our revenue stream for the future transportation system.

As we gathered here in this room, meeting, the Department of Transportation was sending out e-mails, a whole list of them across the Country, denigrating the Commission's report. They have better things to do with their time than to stick their heads in the sand and be captives to the past.

A knee-jerk reaction to the Minneapolis bridge collapse was to say, oh, we don't need to have a trust fund for structurally-deficient bridges. Well, we have more bridges collapsing than we do. But do we have to wait until a bridge collapses? Do we have a graveyard mentality in this system like the FAA had at on time? No.

Twenty years ago, I conducted hearings in this Committee room on the bridge program, 20 years after the collapse of the Mianus Bridge. A witness at that hearing said, 20 years ago, the years that have passed still have left bridge inspection and maintenance in the Stone Age.

And so, we proposed fixes to it, including a reporting system within the Federal Highway Administration. Nothing that the chairman of the NTSB said this week reduced the number of structurally-deficient bridges in this Country, and nothing but an investment in those bridges and better maintenance and better assessment of their condition is going to fix the problem. Failure to act just delays the day of reckoning.

This Commission has pointed out how we can get to that day of reckoning, how we can avoid a day of reckoning, in fact.

As we proceed, we will be calling on you, Mr. Vice Chair, and you, other members of the Commission, to come and help us think our way through the policy maze to craft a new vision, a sustainable vision, a sustainable program for the future of transportation in America. That will be your lasting epitaph and gift to America.

Thank you very much for your hard work.

Mr. SCHENENDORF. Mr. Chairman?

Mr. OBERSTAR. Yes.

Mr. SCHENENDORF. Thank you very much. It has been an honor for us to appear before you today. I can say for all of the commissioners, individually and collectively, we stand ready to help in any way that we can.

Mr. OBERSTAR. Thank you.

The Committee is adjourned.

[Whereupon, at 3:03 p.m., the Committee was adjourned.]

Committee on Transportation and Infrastructure

Hearing on "The National Surface Transportation Policy and Revenue Study Commission Report"
Thursday, January 17, 2008

Statement – Congressman Jason Altmire (PA-04)

Thank you, Chairman Oberstar, for calling today's hearing to discuss the National Surface Transportation Policy and Revenue Study Commission's report entitled, "Transportation for Tomorrow." This report, required by SAFETEA-LU, will provide our Committee with great insight on the challenges we face while developing a long-term plan to serve the transportation needs of our nation over the next 50 years.

I would like to thank the Commissioners for their dedication to this project. Over the past 20 months, they met 22 times and heard testimony from almost 300 witnesses. The result of this tireless effort is a comprehensive, bipartisan plan, which I am confident will aid in the development of a transportation system that fully supports our nation's economic competitiveness and growing population, and improves American's overall quality of life.

However, I do have initial concerns with the Commission's recommendations, particularly the increase in the federal gas tax. While I realize that improvements to our nation's transportation system require significant investment, a $0.40 tax increase to already record high gas prices will place an unbearable strain on America's working families.

Chairman Oberstar, I would like to again thank you for holding this hearing and look forward to hearing from each of our witnesses today.

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OPENING REMARKS FOR FULL COMMITTEE HEARING:
NATIONAL SURFACE TRANSPORTATION POLICY AND REVENUE
STUDY COMMISSION REPORT
JANUARY 17, 2008

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Chairman Oberstar and Ranking Member Mica, thank you for holding this hearing on the National Surface Transportation Policy and Revenue Study Commission's proposal for how we can enhance our national transit system and mechanisms we should consider to fund needed improvements. As Congress starts to work on the reauthorization of SAFTEA-LU I think we all recognize the need to look at diverse funding mechanisms for the surface transit trust fund. I appreciate the members of the Commission coming to talk to us today about their study and recommendations.

Nobody can deny we must invest more in replacing our aging transportation infrastructure. In my home state of Missouri alone there are 123 structurally deficient bridges, eight of which are located within the Third Congressional District. This unacceptably high number is evidence that our bridges and highways are not well maintained and that we must address deficiencies in our transportation infrastructure policy. The Commissioners are right that we must ensure that all Americans are safe on our roads and can get from place to place easily, especially around congested metropolitan areas such as St. Louis. To meet these needs we must take a long look at our highways, bridges, and transit and passenger rail infrastructure and identify key needs that must be addressed through adequate funding.

However, as the price of oil continues to rise to the point where it has surpassed one hundred dollars a barrel, I do want to express certain reservations I have about drastically increasing the gas tax. The price of gas over the last few years has hit the pocket books and daily lives of many of my constituents. I have serious concerns about how this will impact many of my constituents, especially those in the outlying suburbs of St. Louis who must endure longer commutes. Given this, I look forward to learning more about other funding mechanisms that the Commission has studied.

Again, I want to thank the Chairman and Ranking Member for holding this hearing today and look forward to working with each of you going forward.

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Statement by Congressman Jerry F. Costello
Committee on Transportation and Infrastructure
Hearing on the National Surface Transportation Policy and Revenue Study Commission Report: Transportation for Tomorrow
Thursday, January 17, 2008

Thank you, Mr. Chairman. I am pleased to be here today as we examine the National Surface Transportation Policy and Revenue Study Commission Report: Transportation for Tomorrow. I would like to welcome today's witnesses.

The United States transportation system is the envy of the world. We have an extensive system of highways, ports, locks and dams, and airports. Yet we have neglected to upgrade and modernize our infrastructure over the years.

For example, currently, our Interstate System is almost 50 years old. Thirty-two percent of our major roads are in poor or mediocre condition; one of every eight bridges is structurally deficient; and 36 percent of the nation's urban rail vehicles and maintenance facilities are in substandard or poor condition.

We should not build our infrastructure and then walk away without maintaining it and modernizing it as it becomes antiquated. According to this report, a significant surface transportation investment gap exists that can only be filled by an annual investment level of between $225 billion and $340 billion by all levels of government and the private sector. For comparison purposes, our current annual capital investment from all sources in all modes of transportation is $85 billion – we fall far short of meeting the Commission's recommended level.

We must find a way to make the necessary improvements to our surface transportation system to make sure the highest level of safety is maintained and that the US economy remains strong. I am interested in hearing more from our witnesses on the recommendations laid out in this report that would hopefully establish long-term goals regarding the transformation of the surface transportation system.

While we must decide what we are funding before we fund it, the report also highlights funding our system. To that point, I believe we must look at all options, including a tax on the barrel not at the pump in order to bring in additional revenue. While I know many of my colleagues have proposed ways of increasing funds for our highway trust fund, I am interested in hearing from our witnesses their thoughts and ideas.

I look forward to today's hearing as we examine this important issue.

Harry Mitchell

Statement of Rep. Harry Mitchell
House Transportation and Infrastructure Committee
Full Committee Hearing
National Surface Transportation Policy and Revenue Study Commission Report:
"Transportation for Tomorrow"
1/17/07

Thank you, Mr. Chairman.

I look forward to hearing today about the National Surface Transportation Policy and Revenue Study Commission's report about our future transportation needs.

As our country continues to grow, our surface transportation system needs will change.

Take Arizona for example. Arizona is now the fastest growing state in the country, and my district in Maricopa County is at the very heart of this growth.

With this growth, of course, comes need. And for Arizona, this means highways and light rail.

The Arizona Department of Transportation estimates that Arizona will need at least $9 billion over the next 20 years for just 12 of its major highway corridors...and these corridors represent just 36% of our state's total highway miles.

The only thing more staggering about future surface needs in Arizona, is how quickly they are growing.

I look forward to hearing from today's witnesses and learning what we can do today to help surface transportation run smoothly tomorrow.

I yield back the balance of my time.

Ellen O. Tauscher

OPENING STATEMENT OF
THE HONORABLE ELLEN TAUSCHER (CA-10)
TRANSPORTATION AND INFRASTRUCTURE COMMITTEE
U.S. HOUSE OF REPRESENTATIVES

Hearing on
The National Surface Transportation Policy and Revenue Study Commission Report

Thursday, January 17, 2008
2167 Rayburn House Office Building

Chairman Oberstar, I would like to thank you for holding this important hearing on the recently-released National Surface Transportation Policy and Revenue Study Commission report.

We established the Commission in the 2005 SAFETEA-LU Bill and gave it broad discretion to investigate the future demands on our nation's surface transportation system.

We also asked the Commission to forecast the funding levels that will be necessary to maintain and improve our transportation infrastructure in the future.

I would like to commend the Commission for their work.

The twelve Commissioners produced a ground-breaking report, which will assist this Committee as we seek to construct a new transportation plan for our nation.

I would like to recognize my good friend, Steve Heminger, the Executive Director of the Metropolitan Transportation Commission in San Francisco.

Steve and I have known each other for many years, and I commend him for his contribution to this report.

Unfortunately, many of my colleagues have chosen to focus solely on the proposed funding mechanisms in this report. While such discussions are ultimately necessary, they are premature today.

First, we must examine the structure of a new plan for our transportation infrastructure.

Increasing mobility within the most congested cities must be a priority. Metropolitan areas of more than one million people comprise sixty percent of our nation's population, but these areas produce eighty-five percent of traffic congestion, transit ridership, and exposure to auto-related air pollution.

In the future, we must provide additional public transportation options to reduce bottlenecks on highways and manage population growth.

I commend the Commission for presenting innovative ideas. This report will help our Committee produce a new transportation plan in the coming months.

I yield back the balance of my time.

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Testimony of:

Rick Geddes
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Before the

Committee on Transportation and Infrastructure
U.S. House of Representatives
January 17, 2008

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Chairman Oberstar, Ranking Member Mica, committee members, fellow commissioners:

Thank you for the opportunity to serve on this important Commission and to assist it in its work. It has been a pleasure to interact with such distinguished colleagues. In the end I found myself unable to agree with the majority of my fellow commissioners on several important recommendations. However, I want to emphasize that we did agree on a number of key issues, and that I have the utmost respect and admiration for my colleagues on the Commission. Working with them has been a distinct honor and a privilege.

I believe that the critical difference between my view and that of the majority comes down to the question of whether the formidable transportation problems now facing our nation are primarily a matter of raising additional revenue through higher taxes, largely within the existing policy framework, or whether a fundamental change in our transportation policy approach is needed. I believe that we must fundamentally change our approach to transportation policy.

A New Policy Approach

Our current approach, and that recommended in the majority report, is to raise revenue through taxation, and then to direct transportation resources by command in a way that we think is most efficacious. In our society, excepting perhaps national defense, the type and quantity of the goods and services we consume are not determined in this manner. They are not determined that way even for services that we consider to be public utilities or network industries, such as gas, telecommunications, and many others.

The policy approach I recommend instead places increased reliance on market forces to allocate resources to where they are most needed. The technology exists today to charge users directly for their road use, without costly delays to pay tolls. As most economists recognize, the ability to charge users directly for their use of a good or service is a critical precursor to fundamental policy change.

The direct pricing of road services allows customers to face the full, true cost of using a particular road. That is a very good thing. When consumers face that cost, they will take it into account in their decisions about when and how to use the road. They will conserve on the use of a particular road at a particular time when it is economically sensible to do so. This will help to balance the capacity, or supply, of the road and the demand for it. The current approach to road funding does not result in consumers facing accurate information about the cost of using a road, and they thus do not conserve on its use. The result is traffic congestion in many areas.

Such technological developments allow consumers to face not only the direct costs of using a road, such as wear and tear, but it also lets them know of important costs they impose on others when they use a road. The choice of one consumer to use a road imposes a cost on all other consumers who are trying to use that road at that same time. Those costs are known as congestion costs, and they are likely to be the largest costs associated with the use of many roads and highways in the United States today. A new policy approach focused on proper pricing would give consumers the information and the incentive to conserve on road use when it is most important to do so, which would alleviate traffic congestion.

However, there is another salutary aspect of moving toward direct road pricing that may be even more important. The price that consumers are willing to pay to use a road gives unbiased information on how much they value that road. If consumers are willing to pay more to use a particular road at a particular time, then they value that road more than another. Resources to maintain and expand roads can therefore be spent where consumers have indicated (through their willingness to pay) that they most value the road's use. Road pricing thus provides a crucial link between how much consumers value a road and the supply of that scarce road capacity.

This link is critical to establish because the alternative, which we rely on currently, has proven to be unworkable. That alternative is to direct transportation dollars to roads and highways using the political process. Unsurprisingly, this process has resulted in transportation dollars being spent unwisely. This is indicated not only by increased earmarking in transportation legislation, but also by academic studies showing that transportation spending has very low rates of return, and does very little to reduce congestion. There is simply no reason to believe that the political process will direct dollars to the most economically valuable projects. Indeed, in the absence of pricing of roads, it is impossible to know which projects consumers value the highest. Pricing must be instituted so that we can know which projects are most valuable, and thus where to spend our scarce transportation dollars.

The fundamental problem facing much of our transportation system today is an imbalance between the road capacity available at any given time and the demand for it. That imbalance can only be corrected through proper pricing. Unfortunately, the majority report suggests restrictions that would actually constrain the use of pricing relative to current law. Basic economics indicates that further constraining the use of pricing is unwise. Such restrictions should not be adopted.

The Funding of Infrastructure

The direct charging of customers for road use has another critical implication. When customers can be charged for road use, there is no reason to use the political mechanism to tax and then redistribute funds via the political process. Instead, investors will be willing to put their own capital at risk to fund those projects. Indeed, billions of dollars in private capital stands ready to fund U.S. infrastructure now.

The introduction of private investment has four salutary effects, among others. First, it ensures that transportation projects will, in fact, be adequately capitalized. Second, it transfers risk from taxpayers to private investors, who bear the risk voluntarily. Third, it ensures that transportation dollars will be spent where they are most needed by consumers, rather than where they provide the most political gain. Fourth, private owners will have strong incentives to maintain and manage the infrastructure in a way that maintains its value through time.

Again, the recommendations in the majority report would place additional restrictions on the use of private capital in the funding of U.S. transportation infrastructure. There is no policy justification for such restrictions, and they should not be adopted. Rather, all possible steps should be taken to encourage private investment in our nation's infrastructure.

The Federal Role

The Commission had many months of hearings, testimony, personal study, and internal discussions. After that inquiry, however, I was unable to discern a solid policy rationale for collecting tax revenues at the state level, and sending them to the Federal government for redistribution back to the states to fund transportation infrastructure. I believe there is, however, a rationale for Federal provision of a core set of what could be called "public goods," such as safety, research, and standards on the Interstate system.

The funding and management of the Interstate and National Highway System is clearly a task better suited to state and local authorities. Those bodies are in a position to better understand the needs and desires of their local constituents, and are more likely to be accountable to their constituents for the success or failure of their local transportation systems.

The lack of a compelling rationale for Federal funding of transportation infrastructure was one of the reasons I could not agree with the majority's recommendation to increase the gas tax. This was coupled with the troubling extent of earmarking in recent transportation legislation, the low returns on investment, and the minimal effect of increased spending on congestion under the current system, as mentioned above.

It is also important to consider that the gas tax is a regressive tax, in the sense that it is borne disproportionately by the poor and middle class. To raise such tax at a time when the country is increasingly concerned about the issues of inequality, and when households are spending larger portions of their budgets on fuel, would require a compelling policy justification. I was unable to find such a justification. Increasing the gas tax will only serve to perpetuate an inappropriate policy approach to surface transportation.

Although the majority on the Commission mentions in several places that it supports new, innovative, and market-oriented ways to fund and manage surface transportation, its recommendations would actually have the effect of constraining those mechanisms. I thus found myself unable to endorse the majority approach.

Response to Questions from Rep. Christopher Carney
Committee on Transportation and Infrastructure
January 17, 2008

From

Mr. Raymond R. Geddes
Commissioner
National Surface Transportation Policy and Revenue Study Commission

Question 1: In many places, people drive not because they want to, but because there are few practical alternatives. Enhancing transit usage, which has many benefits that include easing congestion to helping improve air quality, means addressing the broader issues of transit supportive urban planning, zoning, and land-use – Can you comment?

Answer: I agree that transit use has many advantages. If those systems provide economic benefits to riders, as your question suggests, then the riders will be willing to pay for that service and the systems will be self financing. If that is the case, there is a large role for private investors to fund those systems (i.e. they need not be provided by transit agencies). Even if revenue from fares did not cover the use of such systems, and it was determined that subsidies were desirable, there would still be an important role for private financing of those systems. Concessionaires could simply bid on the basis of the smallest subsidy that they would accept to finance the system (rather than on the largest concession payment). Indeed, this is that way that some toll roads are currently financed in Spain.

Question 2: Should Federal transportation policy create incentives for transit agencies to work collaboratively with communities to develop Transit/mixed-use (TMU) zoning districts in the areas adjacent to transit stations?

Answer: That seems wise, but I do not believe that such relatively minor changes will have a substantial impact on the transportation problems facing America. I believe that a sea chance in our policy approach is called for. Elements of that approach (which include value pricing and more private investment) were outlined in the Commission's minority report, which I signed.

Question 3: What role do tax incentives play in the development of energy saving technologies? In other words, do these technologies have a realistic chance of being developed and implemented without financial incentive in the form of tax incentives among others?

Answer: Around the world, government's record in targeting and picking the winning and losing industries and technologies is very poor indeed. I believe that it is better for government to simply provide a level playing field for all technologies and then allow the marketplace to sort out which are successful and which are not. If technologies are energy saving, then consumers stand to realize those efficiencies, and will be willing to pay more for such technologies.

Response to Questions from Ranking Member Duncan
Committee on Transportation and Infrastructure
January 17, 2008

From

Mr. Raymond R. Geddes
Commissioner
National Surface Transportation Policy and Revenue Study Commission

Question 1: The Commission recommends raising the gas tax by 25 to 40 cents per gallon. How does the Commission justify this enormous increase in the gas tax, considering that gas already costs more than $3.00 a gallon?

Answer: I disagree with the majority's view that fuel taxes should be raised. That is why I signed on to the minority report, which does not recommend a gas tax increase. Among the many reasons for my disagreement with the majority on this are:

- The fuel tax is a highly unreliable source of funding, with revenues falling as gas consumption falls, and vice versa. The system needs a more reliable funding source.
- Funding transportation with fuel tax revenue is fundamentally at odds with numerous national policies that discourage fossil fuel consumption. This makes funding even more unreliable.
- The distribution of fuel tax revenue has become highly politicized in recent years. It is not being spent on those projects with the highest economic return. It is unlikely that this trend will be reversed.
- One of the main problems facing the current system is rising traffic congestion. Studies show that increased taxes and expenditures under the current approach do very little to address that problem.

Question 2: Transportation funding has increased rapidly in the last few years but system performance has continued to decline. Why do you think a gas tax increase, which creates additional funding, would solve the system performance problem?

Answer: I do not believe that an increase in the gas tax would address the decline in system performance. That is one reason why I did not sign the majority report. I believe that *the only solution* to declining system performance is tolling, where tolls are value based, combined with increased use of public-private partnerships. That is, tolls need to vary in a way that regulates demand for use of the facility at that time of day.

Question 3: The Commission recommends moving to a vehicle miles traveled (VMT) tax to replace the motor fuels tax by the year 2025. Why would it take so long to accomplish this transition?

Answer: I did not agree with the majority on this point either, which is another reason I signed the minority report instead. I believe a VMT, or direct user fee, could be done much sooner. Indeed, Oregon completed a highly successful pilot study testing actual VMTs, and Rhode Island recently suggested its introduction. The technology is completely in place. It is only a matter of willingness to adopt the new approach. I believe that, with sufficient willpower, it could be done in the next few years.

Question 4: The Commission report states that the U.S. needs to invest at least $225 billion annually for the next 50 years to upgrade our existing transportation network. Currently, how much does the U.S. annually invest in transportation infrastructure? How does this amount compare with other countries that now have or will have good transportation systems?

Answer: I do not recall the exact current investment number offhand, but it is significantly below the $225 billion. Regarding other countries, the Commission did not examine policies in other countries in detail, which I believe was a major failure. If it had, it would have discovered that other countries (including Japan, Canada, Chile, France, Spain, Portugal, and Italy among many others) allow a much greater role for private investment in surface transportation infrastructure investment than currently takes place in the U.S. As a result of facilitating private investment, those countries have very well financed transportation systems. It is worth noting that, even in the United States, most other utilities (electricity, gas, telecommunications) are funded primarily with private investment. All of those systems are well-financed.

Question 5: In your testimony, you recommend that all 108 surface transportation programs be consolidated under 10 general subject areas. It appears that you are merely reorganizing existing programs into more general issue areas; how will this translate to more successful federal programs?

Answer: I disagree with the majority on this as well. I do not believe that this consolidation reflects a fundamental change in transportation policy and thus would have little impact on performance outcomes, such as road quality, time to destination, bridge and tunnel maintenance, etc. Nor would it affect incentives. I believe that much more fundamental changes are called for, such as a switch to better funding and financing mechanisms.

Question 6: Please detail your recommendations for how to shorten the time it takes to complete environmental reviews and secure permits for transportation construction projects.

Answer: I do not believe that times will be shortened under the current policy approach. Calls and general exhortations to streamline the NEPA process will do little. I believe that the increased use of public-private partnerships (PPPs), which introduce a party that has very strong financial incentives to complete projects in a timely manner, will shorten project completion times. If desired, I can provide data from other countries that indicate that PPPs reduce project completion times by 50 percent or more.

Question 7: What should the federal role be in regard to public transportation?

Answer: I assume by this that you mean fixed guide way train systems, such as light rail and subways. I do not believe that the federal government should provide those systems with any special subsidies. If those systems provide economic benefits to riders (such as congestion free, timely travel), the riders will be willing to pay for that service and the systems will be self financing. If that is the case, there is again a large role for private investors to fund those systems. Even if revenue from fares did not cover the use of such systems (and it was determined that subsidies were desirable), there would still be an important role for private financing of those systems. Concessionaires could simply bid on the basis of the smallest subsidy that they would accept to finance the system (rather than on the largest concession payment). Indeed, least-acceptable-subsidy bidding is how some toll roads are currently financed in Spain.

Question 8: What does the public transportation community think about the report? Won't public transportation run the risk of getting less federal funding under your proposal than it now receives?

Answer: I do not know what the reaction was from the public transportation community per se. I do know that the reaction of the transportation policy community to the majority report was quite negative. Since I did not sign the majority report, I am not in a position to defend its impact on public transportation funding.

Question 9: In the transportation community, there has been a lot of talk regarding the benefits of public private partnerships. Why didn't the Commission spend more time discussion this financing option?

Answer: I believe that the failure of the Commission's majority to thoroughly and objectively study PPPs was a major failure on the part of the Commission, particularly given the overwhelming success of PPPs in other countries. I decided to study PPPs on my own, and have discovered a vast array of benefits of both greenfield and brownfield PPPs. Those benefits could be realized in the United States. I believe that everything should be done to encourage their increased use. In fact, I became so convinced that PPPs are beneficial that I decided to write a policy monograph on their use in funding U.S. transportation infrastructure.

Question 10: Among public funding, increased private funding, more tolling, and new and innovative funding mechanisms, which source will raise the most revenue over the longest amount of time? Which source will be the most sustainable? And which one will be most palatable to the American public?

Answer: I believe that public funding through fuel taxes will decline rapidly in importance and sustainability over time. As motorists choose to drive more fuel efficient cars and as U.S. policies to discourage fossil fuel consumption begin to bind, revenue from that source will become less stable and will decline. That source should not be relied on. In contrast, tolling and PPPs will provide greater fractions of transportation funding. Revenues from those sources have proven to be highly sustainable and reliable. Regarding palatability, I believe that Americans will begin to accept more tolling and private participation as their experience with those approaches increases. Motorists in other countries that have used tolling and PPPs for decades have come to accept them.

Question 11: The Commission recommends an independent National Surface Transportation Commission (NASTRAC) modeled on the Postal Regulatory Commission, the Base Closure Commission, and state public utility commission. What aspects of those groups should the NASTRAC incorporate and why?

Answer: I was one of the commissioners who suggesting study of a NASTRAC-type approach, in part because I have written extensively about regulation of the U.S. Postal Service (hence the reference in the report to the PRC). After that invetigation, I became convinced that a NASTRAC approach should be rejected for transportation. I came to believe that it would not be adopted, but that if it were its decisions regarding distribution of funds would quickly become just as politicized as those made currently. I concluded that NASTRAC was inappropriate in this case, and would not help much.

Question 12: The restrictions that the Commission recommends placing on congestion pricing and leasing of highways by private companies seem to put these financing options at an artificial disadvantage relative to traditional funding sources such as fuel taxes. Can you explain the thinking behind this recommendation?

Answer: I also disagree with the majority's recommendations in this regard. I think it would be a profound mistake to place added restrictions on either congestion pricing or on highway leasing, given that these are, in my view, the two critical steps in reforming U.S. transportation policy. I believe that each would generate an array of benefits, and every effort should be made to encourage rather than discourage them.

Written Statement of Commissioner Matthew K. Rose

National Surface
TRANSPORTATION POLICY
AND REVENUE STUDY COMMISSION

Before the House Committee on Transportation and Infrastructure

for a Hearing on "The Findings of the National Surface Transportation Policy and Revenue Study Commission"

Thursday, January 17, 2008

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Written Statement
Commissioner Matthew K. Rose
Hearing before the House Committee on Transportation and Infrastructure on the Findings of the National Surface Transportation Policy and Revenue Study Commission
2165 RHOB, 10:00 a.m., January 17, 2008

Good morning Chairman Oberstar, Ranking Member Mica and Members of the Committee. I want to thank you for the opportunity to appear before you today to discuss the National Surface Transportation Policy and Revenue Study Commission's report and findings.

At the outset, I would like to say that it has been an honor to serve on this Commission and I was privileged to work with my fellow Commissioners, each of whom brought a unique perspective to our work and from which I learned a great deal. I would also like to thank Department of Transportation Secretary Mary Peters, former Transportation Secretary Norm Mineta and acting Transportation Secretary Maria Cino for their collective leadership in chairing the Commission. I can tell you that considering the expertise and strongly held views of the Commissioners, leading this group was no small task.

My own perspective, of course, is shaped by my long career in the freight logistics business, and I should make it clear that I speak only for myself, as a Commissioner, and not for the railroad industry as a whole. The Commission's deliberations addressed a number of issues about which a railroad CEO naturally has some skepticism – such as expanding the highway system, a larger passenger rail program and a federal freight program partially funded by a user fee. Thus, it was important to me that the Commission's recommendations, especially those for achieving freight and passenger mobility goals, were effective and not made at the expense of stakeholders in America's freight system. I believe the Commission generally has succeeded in this regard and that the Commission's proposals on these subjects should be carefully considered by Congress as it develops a comprehensive transportation program aimed at sustainably preserving mobility and economic growth.

Regardless of whether some or all of the Commission's recommendations are enacted by Congress, I believe this report is an unqualified success in demonstrating to Congress -- and the drivers and consumers who elect them -- that freight mobility is essential to jobs, global competitiveness and quality of life.

When the Commission began its deliberations and receiving the views of the public almost two years ago, it was clear to me that key transportation, economic development and academic experts understand how critical freight transportation is to the United States' economy. Witness after witness from every part of the country underscored the importance of decongesting and expanding freight networks. Frankly, I was a little surprised and quite pleased at how the importance of freight mobility is increasingly appreciated outside of the logistics community.

Goods movement became a fundamental element of the Commission's work. The Commission made policy and programmatic recommendations to promote efficient freight networks, in contrast to the nearly exclusive focus on passenger mobility in all of the preceding comprehensive surface transportation laws. In fairness, things are different today than they were even at the time of enactment of the last surface transportation bill. Fundamentally, what the Commission has found is that we are at a freight capacity tipping point. Freight capacity – for all modes – is tight, reflected in higher costs to the supply chain and consumers and in the environmental impacts associated with congestion and increased volumes.

From my point of view, one of the most important byproducts of this report is a study which benchmarks current U.S. freight rail capacity in key corridors and projects needed capacity into the future, based on freight volume growth levels presumed by the Commission's report. Such a study has never been done before; it was not necessary. Now, however, the economy has grown into the freight rail network, and policy makers should have a better understanding of what that means, the consequences of inaction and recommendations for a path forward.

As many of you on the dais know, I invariably ask elected officials to weigh policy proposals against whether implementation will result in more freight capacity, or less. The Cambridge Systematics/AAR study tells us how much more freight rail capacity the country needs if we want to continue to realize the economic and environmental benefits of an efficient national freight rail network. Understanding future freight rail capacity needs will also help policy makers evaluate whether public policy proposals – on passenger rail, public-private partnerships, economic and other regulation – help achieve needed freight rail capacity expansion, the vast majority of which has been, and will continue to be, privately funded and maintained by the railroads.

The Commission concluded that freight rail capacity needs to be expanded systematically over the next 15, 30 and 50 years, and also determined that freight rail market share should be increased. Significantly, the Commission recognized that private investment is the key driver of freight rail network expansion. I know first-hand that if government regulation – economic, safety, security, environmental, labor – is not based in cost-benefit analysis and an understanding of the impact of implementation on re-investment, it will choke off private spending on expansion capital. Obviously, railroads are not the only private sector provider of transportation to whom this principle applies. Thus, the Commission found that rational regulatory policy is important to successfully promoting investment and productivity for all of the nation's private sector providers of transportation. I think this is one of the most important conceptual underpinnings of the report.

The Commission also recognized the value of tax incentives in spurring needed investment in capacity expansion. It recommended a federal investment tax credit as a way to expand rail network capacity. This has been proposed by the freight rail industry as a way to invest faster to meet market demand. The expansion tax credit, together with immediate expensing of the remaining 75% of capital investment, would reduce expansion project costs by approximately 30%. The net effect is that project return would increase by 3% to 4%, making the investment in expansion more likely and occur sooner. It is enough of an incentive so that a good investment will be made earlier, but not enough to spur a bad investment. I believe that the Commission's recommendation extends also to the maintenance tax credit needed by the short line industry.

Beyond tax policy, the Commission made new freight mobility programmatic recommendations to the surface transportation programs that this Committee should seriously consider. Specifically, the Commission recommended a freight program which is intended to afford broad flexibility to implement freight-related projects that are currently beyond the traditional modal authorizations. With regard to freight rail, the Commission recognized that there are projects that produce substantial public benefits but from which railroads would not benefit enough operationally to make the investment on their own. These projects might reduce vehicular congestion, transportation environmental impacts or even improve freight efficiency; however, there is a higher need for the railroad's finite investment dollar elsewhere. This proposed freight mobility program helps bridge the gap between the projects in which the railroads must invest to keep networks strong and expanding to meet market demand and projects which serve national, state and local freight mobility goals. Projects eligible for the freight mobility program would serve the public interest in improving mobility and eliminating chokepoints, and their related environmental impacts.

The Commission envisioned eligible public-private partnership projects to include intermodal connectors, strategic national rail bridges where the cost of construction exceeds return on private invested capital, train control technology and assistance in corridor development. In addition, eligibility would include development of "green" intermodal facilities and operations, and on/near dock facilities, which can reduce vehicular congestion, emissions and noise and can improve safety.

Proposed projects would be the product of cooperation between freight railroads and the public sector – as they are now – but with the formality and planning imposed by a National Freight Transportation Plan which calls upon federal, state, local and private stakeholders to evaluate projects using cost-benefit analysis. This process also will formally implement the principles recognized by the Commission that public entities and private entities should pay for their respective benefits, that publicly-funded projects should not require non-economic private investment or service, and that public investment should not supplant, diminish or strand private investment.

The Commission made a recommendation that more funding from a variety of sources should help pay for the projects undertaken through this program. These include gas tax revenues, a portion of the existing Customs revenues, and potentially a freight fee and any carbon-related revenues that may result if Congress regulates green house gases. In addition, the Commission acknowledged that freight projects should receive funding from other programs –

environmental, passenger rail, transit, metropolitan mobility – if they meet the goals of those programs.

I believe that, since trade is the key driver for these increasing volumes, Customs duties are an appropriate stream of revenue for funding a freight program. Customs duties have the added benefit of not displacing freight between ports of entry, and collection and administration is already established. Dedicating 5% of current Customs duties for investment in freight projects would generate about $1.8 billion annually and $20 billion cumulatively through 2017. Dedicating 10% of current Customs revenues would yield $3.6 billion annually and $49 billion cumulatively through 2017.

The Commission was not specific about the form of any freight fee which Congress might authorize – such as a container fee, or waybill surcharge. However, it did correctly qualify that any fee considered by Congress should be designed to ensure that commerce is not burdened. At the same time, Congress should ensure that local and state proliferation of such fees are, in general, preempted. In addition, no mode of transportation or port of entry should be unduly advantaged or disadvantaged. A national freight fee is preferred to individual state fee initiatives that are now emerging in several states, which may inadvertently distort global trade flows and result in diverting congestion from one port region to another. A national fee is the best way of keeping a level playing field across national freight networks.

The Commission also found that a fee must be designed to ensure that the ultimate consumer bears the cost. This means that any freight fee is paid by the beneficial cargo owner, not transportation intermediaries such as steamship, trucking, or rail companies. An issue with fees assessed against carriers is their inability to pass these fees on in a competitive marketplace, which will result in reducing their ability to re-invest. Furthermore, the administrative burden to bill and collect a federal freight fee should not be put on the private sector.

The Commission recognized that the payors of such a fee must realize the benefit of improved freight flows resulting from projects funded by the freight program. This is a fundamental user fee principle. It is essential to recognize that any freight fee is the shipper's money - private funding – which should be invested in ways that result in increased freight velocity, capacity and additional reliability. It will take additional revenues from all sources – including gas taxes, Customs duties and potentially revenues from any greenhouse gas regulatory program – to better meet the public's mobility and environmental goals.

I expect that freight stakeholders and Congress will have a strong debate about specifics of a freight fee and whether a "freight trust fund" should be created to administer it. The rail industry has long been opposed to that concept because there is little "trust" that the funds would flow to projects that meet the goals of an integrated goods-movement strategy – versus the political earmarking process. The Commission called upon Congress to create an accountable and transparent programmatic linkage between an assessed freight fee and the selection and funding of projects that facilitate growing trade-driven freight volumes.

In my opinion, conditions placed by Congress around the use of the freight fee will be critical to whether freight stakeholders are able to come to agreement on such a proposal. To ensure the wisest use of resources, the Commission recommended the development of a National Freight Plan and a NASTRAC to ensure that only effective, high priority projects would receive funding. In the absence of some kind of strong program governance for funding freight projects, I could not support any freight fee and related freight trust fund.

Next, I would like to address the passenger rail recommendations of the Commissions findings and recommendations. I believe that it is self-evident that passenger rail has a place in America's transportation future, given the energy and environmental challenges this country faces.

First and foremost, this country should raise its sights and view separated right of way, high speed passenger rail as a starting point, rather than an end point, of its passenger rail vision. Incrementalism – where more passenger rail is added to existing freight networks until capacity is full - will be frustrating and potentially counterproductive in light of growing freight volumes. This Committee should commit itself to a bold vision of high speed passenger rail in the next transportation bill.

However, the current reality is a system of joint use by freight and passenger rail. While the Commission envisions high speed rail, it also addressed the joint use model and, in so doing, was clear about the need to protect and expand the underlying freight network. Throughout the Commission's passenger rail discussions, it recognized that it is nonsensical to impede operations and expansion of freight rail, the most fuel- and cost-efficient and environmentally friendly means of moving growing volumes, thus driving freight to the nation's highways. That is an important externality in any cost-benefit analysis.

Specifically, the Commission upheld the principle that access by passenger providers to freight rail networks, where reasonable, must be negotiated at an arm's length with freight railroads, and the impact on present and future corridor capacity must be mitigated to ensure that rail freight capacity is not reduced, but enhanced. This recognizes that speed differences between passenger and freight trains and certain well-defined passenger service requirements must be taken into account and that there must be a fair assignment of costs based on the on-going cost of passenger services. These costs include the cost of upgrading and maintaining track, signals and structures to support joint freight and passenger operations and the costs associated with sealed or grade separated joint use corridors. Finally, it goes without saying that all host railroads must be adequately and comprehensively protected through indemnification and insurance for all risks associated with passenger rail service. In short, the Commission's vision recognizes that in order to be a true transportation alternative for Americans, passenger rail cannot be achieved on the cheap, as it has been to date.

I'd like to point out the other findings and recommendations in the report that have positive implications for freight mobility. The Commission made extensive recommendations for streamlining the project permitting process and specifically recognized that privately funded freight rail projects often face the same costly challenges and delays. In our discussions, the importance of preserving federal pre-emption in this regard was recognized. In addition, the Commission recommended an environmental stewardship program which recognizes ways to improve the environmental impacts of freight operations. The recommendations envision tax incentives for deployoment of cleaner locomotives, and funding for retrofitting locomotives with clean-burning technology

I believe the Commission succeeded in this report in bringing the rail sector to the policy table in a way that has never been done before. The Commission recommends a more mode-neutral approach that allows policy makers to recognize freight rail's inherent cost effectiveness, fuel efficiency and environmental sustainability in program and project funding decisions. That's new, and it should help level the playing field between modes and result in greater benefits to drivers, communities and the environment.

In conclusion, it is a privilege to transmit the Commission's findings to you and formally conclude the work you asked us to do. I am confident that the call to action which the Commission makes will be carefully evaluated by this committee, which has always valued its role first and foremost as stewards of the nation's transportation system. I look forward to your deliberation of these findings, and those of others yet to come before you, as you prepare for what may be one of the most important reauthorization bills yet.

Questions for the Record for Mr. Matthew Rose
Commissioner
National Surface Transportation Policy and Revenue Study Commission
Questions from Rep. Christopher Carney
Committee on Transportation and Infrastructure Hearing
January 17, 2008

*** In many places, people drive not because they want to, but because there are few practical alternatives. Enhancing transit usage, which has many benefits that include easing congestion to helping improve air quality, means addressing the broader issues of transit supportive urban planning, zoning, and land-use--Can you comment?**

I agree with that statement. Furthermore, I believe that a more sophisticated, less stop-gap approach to planning should be brought to freight facility development and expansion. If communities planned for freight zones – long in advance of needing them – by setting aside land, limiting construction up against freight rail rights of way and making the permitting process for needed freight projects less opaque and potentially dilatory, the "NIMBY" effect currently associated with accommodating more, needed freight flows would be reduced. Quality of life in communities with freight impacts would be improved- including air quality and congestion.

*** Should Federal transportation policy create incentives for transit agencies to work collaboratively with communities to develop Transit/mixed-use (TMU) zoning districts in the areas adjacent to transit stations?**

These proposals should be favored by federal policy and funding, if such a proposal helps state, local and regional governments meet transportation performance objectives. Under the Commission's recommendations, those objectives include reducing VMT. Thus, a TMU would be incentivized under federal policy, if it was shown to achieve that objective within a jurisdiction.

*** What role do tax incentives play in the development of energy saving technologies? In other words, do these technologies have a realistic chance to be developed and implemented without financial incentive in the form of tax incentives among others?**

There is a substantial role for tax incentives in developing these technologies, if the incentives are sustained over a long enough period of time to allow the participating industries to pull the investment forward to achieve the technology outcome Congress seeks. In the rail industry, we have proposed a tax credit of 25% to incent the freight rail companies to expand capacity beyond that which is called for by current market conditions. This is to anticipate the inevitable increase in freight that DOT and other objective entities forecast over the mid- and long-term, and to realize the emission and fuel efficiency benefits of rail. Expanded freight rail – which will accommodate taking more truck miles off of highways – is an important energy saving technology which has no speculative, or long-term, technological outcome associated with it.

Questions for the Record for Mr. Matthew Rose
Commissioner
National Surface Transportation Policy and Revenue Study Commission

Questions from Ranking Member Duncan
Committee on Transportation and Infrastructure Hearing
January 17, 2008

*** The Commission recommends raising the gas tax by 25 to 40 cents per gallon. How does the Commission justify this enormous increase in the gas tax, considering that gas already costs more than $3.00 a gallon?**

The price of gasoline has fluctuated recently between $4.00 and $2.25. As prices fall, it is a propitious time to consider how to increase the fuel tax in such a way that does not adversely affect the economy or the average American's pocketbook. Congress should consider creating a mechanism for raising the gas tax when fuel prices are low and easing it as prices rise.

*** Transportation funding has increased rapidly in the last few years but system performance has continued to decline. Why do you think a gas tax increase, which creates additional funding, would solve the system performance problem?**

While additional transportation funding would be an important step in meeting system demand, it alone will not increase performance. It's not clear that under the current system of programs that capacity could be adequately increased– given the inefficiency in program delivery and the lack of flexibility that state and local governments have to make the project choices with federal dollars that result in projects that meet the goal of reduced VMTs.

*** The Commission recommends moving to a vehicle miles traveled (VMT) tax to replace the motor fuels tax by the year 2025. Why would it take so long to accomplish this transition?**

The Commission heard testimony that the process of transition is complicated by the lack of current technology to track the VMT for which drivers would be differentially charged and a simplified means of assessing those charges. However, progress is underway in this arena. Oregon has a pilot project that is very worthy of modeling elsewhere. For example, its truck traffic pays a weight and distance fee that potentially could result in a much fairer allocation of cost relative to use of the road. Since the answer lies in technology, the Commission was confident that the outcome would be favorable, but it did not want to over-promise the timing for delivery, given the current state of technology.

*** The Commission report states that the U.S. needs to invest at least $225 billion annually for the next 50 years to upgrade our existing transportation network. Currently, how much does the U.S. annually invest in transportation**

infrastructure? How does this amount compare with other countries that now have or will have good transportation systems?

Currently, the U.S. spends about $154 billion annually on transportation from all sources; the backbone of the program is the Highway Trust fund, which supports $87 billion in funding annually for highways and transit. The privately held freight rail industry spends $10 billion annually. (It's worth pointing out that each year, BNSF Railway spends more on its rail right of way than every state except Texas, Florida and California spend on their highway facilities.)

By comparison, adjusting for purchase power parity, China invested $363 billion on highways alone in the last year. India, according to a recent USA Today article, has tripled their infrastructure spending to $500 billion a year. While it appears that Congress will consider a stimulus proposal that contains funding for transportation, the Nation needs an ongoing surface transportation program that is well-funded, reflecting the priority that infrastructure assumes in our economy.

*** In your testimony, you recommend that all 108 surface transportation programs be consolidated under 10 general subject areas. It appears that you are merely reorganizing existing programs into more general issue areas; how will this translate to more successful federal programs?**

If the federal government's role is institutionalized around a more simplified, focused set of priorities from which accountability and performance flow, the public is better served. Efficiency is realized through the saving of administrative costs of eliminating 108 different programs alone, along with organizing oversight/administration activities along desired outcomes. However, most significantly, when federal goals are objectified along priorities, not a multitude of complex programs which even the state Departments of Transportation contend result in contrary/unintended consequences, the public is more willing to support them financially and politically.

*** Please detail your recommendations for how to shorten the time it takes to complete environmental reviews and secure permits for transportation construction projects.**

The Commission stated that, "Simply put, the Commission believes that it takes too long and costs too much to deliver transportation projects, and that waste due to delay in the form of administrative and planning costs, inflation, and lost opportunities for alternative use of the capital hinder us from achieving the very goals our communities set." The Commission recommended that a series of reforms be advanced to address problems with the project development process. They appear on page 14, Volume I of the report.

The Commission's point often applies to rail infrastructure expansion projects, including projects that involve little or no public financial participation and are constructed entirely in private right of way. In cases of local opposition, railroads try to work with the local community to find a mutually satisfactory arrangement. These efforts are usually successful. When agreement is not reached, however, projects can face seemingly interminable delays and higher costs. For example, one of the final projects to complete double-tracking BNSF's "superhighway" mainline between the Ports of LA and Long Beach and Chicago is in Abo Canyon, New Mexico. BNSF estimated that permits reasonably should be received in 6-12 months. The process took a little over 3 years. A single land owner, through litigation and administrative process, added $ 25 million dollars to the cost of the project through delay. (Additional costs are associated with engineering, legal, mitigation and construction inflation costs).

*** What should the federal role be in regard to public transportation?**

My own view is that federal facilitation of local, state or regional government implementation of public transit should be simplified so that hurdles to bringing transit choices to Americans are reduced. However, I also believe that the Federal share of funding in a more simplified transit equation should come with greater non-federal funding commitment than is currently contained in federal statute. This will impose local political and fiscal discipline on projects that an FTA cost-benefit analysis likely could not. Many jurisdictions have shown that, balancing local-only funding with the absence of meeting FTA application requirements is a worthwhile gambit, if the local support exists. Other examples show us that local and state transportation entities will ante up more funding than their match if it means more certainty in getting a federal share. Either way, it shows that local support can best determine whether a transit project will be successful. If non-federal funding is significant enough, it should make the federal share a surer thing and ensure quicker project implementation.

*** What does the public transportation community think about the report? Won't public transportation run the risk of getting less federal funding under your proposal than it now receives?**

There was nothing in the report that was intended to reduce support for public transit. In fact, it is more likely under the Commission's recommendations that additional transit potentially would meet several performance objectives for federal funding criteria- reducing VMT, emissions, fuel usage, congestion – and, therefore, should be a favored use for federal funding in an outcome-based program.

*** In the transportation community, there has been a lot of talk regarding the benefits of public-private partnerships. Why didn't the Commission spend more time discussing this financing option?**

We deferred in part to the other commission's recommendations, which we knew would be forthcoming after the issuance of our report. However, there is also a bias on this Commission in favor of Pay as You Go transportation funding. We recognized that debt has its place in transportation funding, especially when investment is so sorely needed, but that the backbone of the Nation's largest infrastructure expenditures should continue under Pay as You Go. Furthermore, we believe that if an infrastructure program is effective, users are likely to be willing to pay for it. Therefore, we recommended both program reforms as well as increased gas taxes to fund investment. Neither of these recommendations precludes financing as an option where it can be sustained.

*** Among public funding, increased private funding, more tolling, and new and innovative funding mechanisms, which source will raise the most revenue over the longest amount of time? Which source will be the most sustainable? And which one will be most palatable to the American public?**

No one funding source can sustain the infrastructure needs of the largest economy in the world. Transportation investment is a pay now or pay later proposition- Americans will pay more gas taxes, tolls, and congestion fees, or they will have less transportation available to them, which has its own cost. Each of the funding sources listed has a role, now and in the future, in ensuring that the Nation's surface transportation capacity is adequate.

*** The Commission recommends an independent National Surface Transportation Commission (NASTRAC) modeled on the Postal Regulatory Commission, the Base Closure and Realignment Commission, and state public utility commissions. What aspects of those groups should the NASTRAC incorporate and why?**

The best aspect of these models is embodied in their function of setting priorities, after an objective review of the data in the field, based on the goals Congress establishes. For NASTRAC, this would mean reviewing transportation projects based on National transportation plans, which would be authorized by Congress according to the Nation's priorities. It also means making recommendations to Congress, such as those for projected revenue levels needed to achieve Congress' goals funding. However, I would not support an entity that could unilaterally establish those revenue mechanisms. Furthermore, no such entity would meet with Congressional support if it universally usurped Congressional prerogatives of directing funding. However, the concept of objective decision-making in project funding is much-needed and important in obtaining the ongoing support of the American people for the Nation's transportation programs. Congress should look carefully at all proposals to insinuate such objectivity throughout its next surface transportation program reauthorization, whether through a NASTRAC entity or through effective planning requirements and performance standards.

***The restrictions that the Commission recommends placing on congestion pricing and leasing of highways by private companies seem to put these financing options at an artificial disadvantage relative to traditional funding sources such as fuel taxes. Can you explain the thinking behind this recommendation?**

The public's interest was foremost in the minds of the Commissioners, and those that voted to support the recommendations on public – private partnerships believed that these recommendations were the best way to effectively protect the public's interest as payors for the use of transportation assets and, in many cases, as owners of those assets.

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Testimony of Jack Schenendorf
Vice Chair, National Surface Transportation Policy and Revenue Study Commission
Before The
Full Committee on Transportation & Infrastructure
U.S. House of Representatives
Thursday, January 17, 2008

Thank you, Mr. Chairman.

I am Jack Schenendorf. I am Of Counsel with Covington & Burling LLP in Washington, D.C. Prior to joining Covington, I had the honor of serving on the staff of this Committee for 25 years. I also served on the Bush/Cheney Transition where I was Chief of the Transition Policy Team for the U.S. Department of Transportation and was responsible for reviewing all transportation policies and issues for the incoming Administration.

In 2006, Speaker Hastert appointed me to the National Surface Transportation Policy and Revenue Commission. I was subsequently elected Vice Chair by my fellow Commissioners. It is in that capacity that I am testifying before you today.

In the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy For Users (SAFETEA-LU), Congress established the National Surface Transportation Policy and Revenue Study Commission to undertake a thorough review of the Nation's transportation assets, policies, programs, and revenue mechanisms, and to prepare a conceptual plan that would harmonize these elements and outline a coherent, long-term transportation vision that would serve the needs of the Nation and its citizens.

This Commission has worked diligently to fulfill this charge, meeting and holding public hearings across the country during the intensive 20-month study period. On behalf of all of the Commissioners, I would like to thank our Chair, Secretary Mary Peters, who did an outstanding job in guiding us through this effort. She presided over the Commission with graciousness, wisdom, and a great deal of patience. And I would be remiss if I did not also thank all of the Department of Transportation staff assigned to the Commission—especially Chris Bonanti, Lydia Conrad, Ross Crichton, Eric Gabler, James March, David Marks, Mary Moehring, and Darren Timothy. Their professionalism, expertise and dedication were instrumental to our success. And a special thanks goes to our Executive Director, Susan Binder, for her hard work and for the sound guidance and advice she provided during our effort. We would not be here today were it not for her and her team.

Our findings and recommendations—calling for bold changes in policies, programs and institutions—are contained in our report, Transportation for Tomorrow. Our recommendations are the product of a bipartisan consensus of a diverse group of Commissioners—5 appointed by Republican officeholders and 4 appointed by Democratic officeholders; from both ends of the political spectrum and everywhere in between; from all regions of the country; a CEO of a company that relies on transportation services; a CEO of a trucking company; a CEO of a rail company; a state transportation official; and a local transportation official. But despite our different perspectives, we were able to coalesce around the findings and recommendations in the Commission's report.

My testimony today will focus on our vision and our four key recommendations.

Background

But first a few key findings:

- Conditions on America's surface transportation systems — our roads, bridges and highways, our passenger and freight rail facilities, our public transit networks — are deteriorating. The physical infrastructure itself is showing the signs of age. In almost all cases, the operational efficiency of our key transportation assets is slipping.

- In figures compiled by the Texas Transportation Institute, congestion cost the American economy an estimated $78 billion in 2005, measured in terms of wasted fuel and workers' lost hours. Congestion causes the average peak-period traveler to spend an extra 38 hours of travel time and consume an additional 26 gallons of fuel.

- Over the next 50 years, the population of the United States will grow by some 120 million people, greatly intensifying the demand for transportation services by private individuals and by businesses. Most of that growth will occur in metropolitan areas. Congestion will increase and spread beyond the traditional morning and evening rush hours to affect ever-lengthening periods of each day.

- If, as expected, the world economy grows and becomes more globally integrated during the next half-century, the U.S. will experience higher trade volumes and greater pressures on its international gateways and domestic freight distribution network. Economic forecasts indicate that freight volumes will be 70 percent higher in 2020 than they were in 1998. Without improvements to key goods-movement networks, freight transportation will become increasingly inefficient and unreliable, hampering the ability of American businesses to compete in the global marketplace.

- Travel on the nation's surface transportation system is far too dangerous. In 2006, over 42,000 people lost their lives on American highways, and almost 2.6 million were injured.

- Overly onerous and procedure-bound environmental review processes can often serve to delay the speedy and cost-conscious delivery of important transportation improvements. Major highway projects take about 13 years from project initiation to completion, according to the Federal Highway Administration, and Federal Transit Administration figures indicate that the average project-development period for New Starts projects is in excess of 10 years.

Our Vision

Just as it helps to know your destination before starting off on a trip, our Commission believed at the outset that it is important to have in mind a vision of what the national surface transportation system might look like — or at least how we'd like it to function — in the middle of the 21st century.

We decided to aim high. We agreed among ourselves that our fundamental motivation should be to help the United States to **"create and sustain the pre-eminent surface transportation in the world."** That pledge has in the end allowed us to reach agreement on a surprisingly wide range of sweeping policy proposals.

Four Key Recommendations

The Commission respectfully makes the following key recommendations:

<u>First, to keep America competitive, we are recommending a significant increase in investment in our national surface transportation system.</u>

Any effort to address the future transportation needs of the United States must come to grips with the sobering financial reality of such an undertaking. We estimate that the U.S. needs to invest at least $225 billion annually for the next 50 years to upgrade our existing transportation network to a good state of repair and to build the more advanced facilities we will require to remain competitive. We are spending less than 40 percent of this amount today.

The existence of an enormous investment gap is indisputable. It has been documented by study after study, including most recently the Urban Land Institute's Infrastructure 2007 Report, DOT's own Conditions and Needs Report, and various state studies. It has been documented by our Commission's analyses. It has been documented by the many witnesses we heard from in our hearings. And it is being documented every day by the

American people as they sit in congestion on crumbling roads or ride on crowded and aging buses and trains.

The implications of this underinvestment, which has been going on for decades, are ominous. We saw with Katrina what happens when there is a pattern of underinvestment in infrastructure. Unless we close this investment gap soon, our surface transportation systems will face the same fate as New Orleans' levees. We must not let this happen.

To close this investment gap, we will need increased public funding. We will also need increased private investment. More tolling will need to be implemented and new and innovative ways of funding our future system will need to be employed. And we will need to price for the use of our system, which will help reduce investment needs.

Second, we are recommending that the federal government be a full partner—with states, local governments and the private sector—in addressing this looming transportation crisis.

The problem is simply too big for the states and local governments to handle by themselves, even with the help of the private sector. We believe that the federal government must continue to be part of the solution, both in terms of providing leadership and in terms of providing a fair share of the resources.

And it's not just that the problem is big. The federal government has a strong interest in our national transportation system. The system is of vital importance to our economy, our national defense and our emergency preparedness. Our transportation network is critical to the interstate and regional movement of people and goods, economic growth, global competitiveness, environmental sustainability, safety and our overall quality of life.

Third, we are recommending fundamental and wide-ranging reform of the federal transportation program. We are recommending that the program be transformed into one that is performance-driven, outcome-based, generally mode-neutral, and refocused to pursue objectives of genuine national interest.

In addition to putting more money into the system, the federal transportation program must be reformed. We do not believe that the federal program should be reauthorized in its current form. Instead, we are calling for A NEW BEGINNING.

There are three key elements to this recommendation.

Element One: We believe that a mission or sense of purpose must be restored to the federal program. Since completion of the Interstate System, the program has had no clear mission. It is now essentially a block grant model, with little or no accountability for specific outcomes. We believe that this must change.

We are recommending that the program be transformed into one that is performance-driven, outcome-based, generally mode-neutral, and refocused to pursue objectives of genuine national interest. More specifically, we are recommending that the 108 existing surface transportation programs in SAFETEA-LU and related laws should be replaced with the following new federal programs:

- A program designed to bring our existing highways, bridges and transit systems into a state-of-good-repair;
- A freight program designed to enhance U.S. global competitiveness;
- A program designed to reduce congestion in our largest metropolitan areas (population greater than one million) (e.g., reduction of 20 percent by 2025);
- A program designed to improve access and mobility in smaller cities and rural areas;
- A program designed to improve safety by cutting fatalities (e.g., by 50 percent by 2025);
- A program designed to provide high speed passenger rail service in the nation's high-growth corridors (300-500 miles);
- A program designed for environmental stewardship;
- An energy security program designed to hasten the development of replacement fuels;
- A federal lands program; and
- A coherent national research and development program.

These programs would give rise to a national surface transportation strategic plan that would guide federal investment.

US DOT, state and regional officials, and other stakeholders would establish performance standards in the federal program areas outlined above and develop detailed plans to achieve those standards. Detailed cost estimates would also be developed. These plans would then be assembled into a national surface transportation strategic plan.

Federal investment would be directed by the national surface transportation strategic plan. Only projects called for in the plans would be eligible for federal funding. And all levels of government would be accountable to the public for achieving the results promised.

The Commission acknowledges that this element of the recommendation represents a major departure from current law. Developing performance standards and integrating them into a performance-driven regimen will be challenging but we believe the rewards will be worth the effort. In addition to making better use of public monies to accomplish critical national objectives, the Commission's recommended approach of performance standards and economic justification would do much to restore public confidence in the transportation decision-making process. In such an environment, we believe Congress and the public would be more amenable to funding the nation's transportation investment needs.

Element Two: The project delivery process must be reformed by retaining all current environmental safeguards, but significantly shortening the time it takes to complete reviews and obtain permits. Projects must be designed, approved and built as quickly as possible if we are to meet the transportation challenges of the 21st Century. This will save both time and money.

Element Three: We are recommending that Congress establish an independent National Surface Transportation Commission (NASTRAC), modeled after aspects of the Postal Regulatory Commission, the Base Closure and Realignment Commission, and state public utility commissions. The new federal commission would perform two principal planning and financial functions:

- The NASTRAC would oversee various aspects of the development of the performance-based performance standards in the federal program areas outlined above and the detailed plans to achieve those standards, and it would approve the national transportation strategic plan.

- Once the national strategic plan has been approved, the NASTRAC would establish a federal share to finance the plan and recommend an increase in the federal fuel tax to fund that share, subject to congressional veto.

And fourth, to close the investment gap, we are recommending a wide range of revenue enhancements.

Unfortunately, there is no free lunch when it comes to infrastructure investment. Policy changes, though necessary, will not be enough on their own to produce the transportation system the nation needs in the 21st century. Significant new funding also will be needed.

We are recommending significant changes in the way the program is financed. In the long-term, we envision transitioning from motor fuel taxes to a VMT tax; we include in our recommendations a number of provisions to hasten that transition. And in the interim, we would no longer rely almost exclusively on motor fuel taxes; instead, we would rely on a broad range of user-related fees and charges.

Here are our major revenue recommendations:

General Revenue Recommendations: We are making the following general revenue recommendations:

- It is imperative that all levels of government and the private sector contribute their appropriate shares if the United States is to have the pre-eminent surface transportation system in the world.

- We strongly support the principle of user financing that has been at the core of the nation's transportation funding system for half a century.

- We are recommending continuation of the budgetary protections for the Highway Trust Fund, so that user fees benefit the people and industries that pay them.

Immediate Revenue Recommendations: We recommend that legislation be passed in 2008 to keep the Highway Account of the Highway Trust Fund solvent and prevent highway investment from falling below the levels guaranteed in SAFETEA-LU.

Mid-Term Revenue Recommendations: We are making the following specific recommendations with respect to transportation funding in the period between 2010 and 2025:

- The annual investment requirement to improve the condition and performance of all modes of surface transportation – highway, bridge, public transit, freight rail and intercity passenger rail – ranges between \$225-340 billion. The range depends upon the extent of peak- hour pricing implemented on congested urban highways in lieu of physical capacity expansion. To address this investment target by providing the traditional federal share of 40 percent of total transportation capital funding, the federal fuel tax needs to be raised by 25-40 cents per gallon. This increase should be phased in over a period of 5 years (5 to 8 cents per gallon per year). This rate increase should be indexed to the construction cost index.

- We are also recommending other federal user-based fees to help address the funding shortfall, such as a freight fee for goods movement projects, dedication of a portion of existing customs duties, and ticket taxes for passenger rail improvements. Tax and regulatory policy also can play an incentivizing role in expanding freight and intermodal networks.

- In addition, we are recommending that Congress remove certain barriers to tolling and congestion pricing, under conditions that protect the public interest. This will give states and local governments that wish to make greater use of tolling and pricing the flexibility to do so. More specifically, we are recommending that Congress modify the current federal prohibition against tolling on the Interstate System to allow:

- tolling to fund new capacity on the Interstate System, as well as the flexibility to price the new capacity to manage its performance; and

- congestion pricing on the Interstate System (both new and existing capacity) in metropolitan areas with populations greater than 1 million.

- We are recommending that Congress encourage the use of public-private partnerships, including concessions, for highways and other surface transportation modes. Public-private partnerships can serve as a means of attracting additional private investment to the surface transportation system, provided that conditions are included to protect the public interest and the movement of interstate commerce.

- State and local governments have many different types of revenues to draw upon for their share of new investment. The Commission expects that state and local governments will have to raise motor fuel, motor vehicle, and other related user fees. In addition, many may take advantage of the expanded opportunities in tolling, congestion pricing and public-private partnerships that our recommendations propose.

Long-Term Revenue Recommendations: We are making the following specific recommendations for transportation funding in the post-2025 era:

- The motor fuel tax continues to be a viable revenue source for surface transportation at least through 2025. Thereafter, the most promising alternative revenue measure appears to be a vehicle miles traveled (VMT) fee, provided that substantial privacy and collection cost issues can be addressed. The next surface transportation authorization act should require a major national study to develop the specific mechanisms and strategies for transitioning to the VMT fee or another alternative to the motor fuel tax to fund surface transportation programs.

A Failure To Act Would Be Devastating

The surface transportation system of the United States is at a crossroads. The future of our nation's well being, vitality and global economic leadership is at stake. We must take significant, decisive action now to create and sustain the pre-eminent surface transportation system in the world.

But some will question whether it is realistic to think that Congress will raise the gas tax by 25 to 40 cents per gallon over 5 years, given the current anti-tax increase sentiment in some quarters. The Commission's recommendation is based on our best judgment on what needs to be done to address our investment shortfall, without factoring in the political feasibility.

But it doesn't seem unreasonable to think that the public would be willing to support an increase of this magnitude to finance a reformed program that has a clear mission and is focused on projects in the national interest. In year five, the cost to the average motorist would be 41 cents to 66 cents per day—less than the price of a candy bar or about 1/5 the cost of a cafe latte. This seems like a bargain when you consider that he or she will get for it: substantially reduced fatalities, highway and transit systems in a state of good repair, reduced congestion, a transportation system that can support a strong economy and job growth, and access for all Americans to all parts of our nation. Moreover, forty-one or sixty-six cents a day also seems quite reasonable when you compare it to the projected $5 to 6 dollar average per trip cost of using a 14-mile stretch of the Capital Beltway during rush hour—a project which some have called a "national model."

But even more compelling is that a failure to act—that is, a failure to raise sufficient revenue to close the investment gap—would be devastating.

The United States would be unable to compete effectively in the global marketplace. Our status as an economic superpower would be jeopardized. Jobs would be lost. And as U.S. businesses are squeezed by foreign competitors, those jobs that remain would likely be lower paying.

Moreover, our quality of life would suffer substantially. We would have fewer travel options. We would spend more time in congestion. We would have to leave our families earlier in the morning and arrive home later at night. Going to and from the doctor would be more difficult as congestion extends to more and more roads and for longer and longer periods of time. Other errands and trips to school would be similarly affected. And as gridlock became common even in rural areas, vacations would become a nightmare. And the cost of maintaining our vehicles would increase as they are damaged by our crumbling infrastructure.

Eventually we would reach the point of catastrophic failures. Road closures. Bridge collapses. Long detours. Tragedies like the I-35 Bridge collapse in Minnesota would become all too common.

Fatalities and injuries would continue increasing and could reach alarming rates.

We cannot let this happen. We must find the political leadership and the political will to make the necessary reforms and the necessary investment. Raising revenues will not be easy. But we must do it, and we must do it soon.

A Call To Action

President Dwight D. Eisenhower had the foresight to understand how a system of interstate highways would transform the nation. If there was ever a time to take a similarly daring look at a broadened surface transportation network, it is now. The nation faces challenges similar to those of the Eisenhower era. However, the imperative for change due to the global economy is even stronger.

The good news is that we can do it. We believe that our recommendations, if enacted as a package, will give the American people the transportation system they need and deserve. We cannot just reform our way out of the transportation crisis; nor can we get the job done by sending lots more money coursing through a broken project delivery system. We need both reform AND increased investment

We cannot sit back and wait for the next generation to address these ever-increasing needs. It will be too late. The crisis is now and we have a responsibility and obligation to create a safer, more secure, and ever more productive system. We need to create and sustain the pre-eminent surface transportation system in the world. Now.

Questions for the Record for Mr. Jack Schenendorf
Vice Chair
National Surface Transportation Policy and Revenue Study Commission

Questions from Rep. Christopher Carney
Committee on Transportation and Infrastructure Hearing
January 17, 2008

- In many places, people drive not because they want to, but because there are few practical alternatives. Enhancing transit usage, which has many benefits that include easing congestion to helping improve air quality, means addressing the broader issues of transit supportive urban planning, zoning, and land-use—Can you comment?
- Should Federal transportation policy create incentives for transit agencies to work collaboratively with communities to develop Transit/mixed-use (TMU) zoning districts in the areas adjacent to transit stations?
- What role do tax incentives play in the development of energy saving technologies? In other words, do these technologies have a realistic chance to be developed and implemented without financial incentive in the form of tax incentives among others?

Response of Mr. Jack Schenendorf
Vice Chair
National Surface Transportation Policy and Revenue Study Commission
to
Questions from Rep. Carney
Committee on Transportation and Infrastructure Hearing
January 17, 2008

1. Public transportation will be an essential element of modernizing our transportation systems to meet the challenges of the 21st century. The only way to meet the performance standards envisioned by the Commission is to greatly expand and improve our transit systems. Moreover, we believe that localities will have to look at broader issues like urban planning, zoning and land-use in order to develop plans that will meet the kinds of performance standards we recommended.

2. We believe that the performance-based programs that we recommended will provide those kinds of incentives.

3. If we are to close the transportation infrastructure investment gap, we need to make use of all of the financing options available to us. This would include tax incentives, including investment tax credits. Our recommendations include a variety of tax incentives.

Questions for the Record for Mr. Jack Schenendorf
Vice Chair
National Surface Transportation Policy and Revenue Study Commission

Questions from Ranking Member Duncan
Committee on Transportation and Infrastructure Hearing
January 17, 2008

- The Commission recommends raising the gas tax by 25 to 40 cents per gallon. How does the Commission justify this enormous increase in the gas tax, considering that gas already costs more than $3.00 a gallon?
- Transportation funding has increased rapidly in the last few years but system performance has continued to decline. Why do you think a gas tax increase, which creates additional funding, would solve the system performance problem?
- The Commission recommends moving to a vehicle miles traveled (VMT) tax to replace the motor fuels tax by the year 2025. Why would it take so long to accomplish this transition?
- The Commission report states that the U.S. needs to invest at least $225 billion annually for the next 50 years to upgrade our existing transportation network. Currently, how much does the U.S. annually invest in transportation infrastructure? How does this amount compare with other countries that now have or will have good transportation systems?
- In your testimony, you recommend that all 108 surface transportation programs be consolidated under 10 general subject areas. It appears that you are merely reorganizing existing programs into more general issue areas; how will this translate to more successful federal programs?
- Please detail your recommendations for how to shorten the time it takes to complete environmental reviews and secure permits for transportation construction projects.
- What should the federal role be in regard to public transportation?
- What does the public transportation community think about the report? Won't public transportation run the risk of getting less federal funding under your proposal than it now receives?
- In the transportation community, there has been a lot of talk regarding the benefits of public-private partnerships. Why didn't the Commission spend more time discussing this financing option?
- Among public funding, increased private funding, more tolling, and new and innovative funding mechanisms, which source will raise the most revenue over the longest amount of

time? Which source will be the most sustainable? And which one will be most palatable to the American public?

- The Commission recommends an independent National Surface Transportation Commission (NASTRAC) modeled on the Postal Regulatory Commission, the Base Closure and Realignment Commission, and state public utility commissions. What aspects of those groups should the NASTRAC incorporate and why?

- The restrictions that the Commission recommends placing on congestion pricing and leasing of highways by private companies seem to put these financing options at an artificial disadvantage relative to traditional funding sources such as fuel taxes. Can you explain the thinking behind this recommendation?

Response of Mr. Jack Schenendorf
Vice Chair
National Surface Transportation Policy and Revenue Study Commission
to
Questions from Ranking Member Duncan
Committee on Transportation and Infrastructure Hearing
January 17, 2008

1. Transportation is the foundation of our economy and essential to our quality of life. If we want our economy to prosper in the future, if we want our citizens to have convenient and reliable transportation choices, then we must modernize our transportation network to meet the challenges of the 21st century. We need seamless, multi-modal transportation systems--highway, freight rail, passenger rail, transit, air, water, and non-motorized--that can move people and goods efficiently, safely and in an environmentally responsible way.

   When it comes to modernizing our transportation system, there is, unfortunately, no free lunch. It will require increased investment. And we must pay for that investment. The Commission's revenue recommendations, including its recommendation to raise the gas tax by 25 to 40 cents per gallon, are our suggestions on how to pay for that necessary investment.

   Two additional points: First, the cost to the consumer of doing nothing is far higher. There will be more congestion, more wasted time, greater repair bills, a weaker economy and fewer and lower-paying jobs.

   Second, some argue that increasing the gas tax is not palatable to the American public and that we should instead move toward pricing and leasing of highways by private companies. The implication is that PPPs would somehow be more palatable to the American people, that it would somehow be less costly to the consumer. Well that is not the case. For example, for a car that gets 20 miles per gallon, a 40-cent gas tax increase would mean that the consumer was paying an additional 2 cents per mile. Compare that to the proposed HOT lanes on the Washington Beltway that will cost 10 cents per mile to $1.00 per mile depending on the time of day. Another study of the widespread pricing of roads in the Washington, DC area indicated that the cost would be 20 cents per mile to $4.00 per mile depending on the time of day. While PPPs will play an important role in financing transportation in the future, the idea that it is somehow cheaper or more palatable to the consumer is simply not well founded. The gas tax increase proposed by the Commission is actually less costly to the consumer than some of these other financing options.

2. While it is true that investment has increased in the last few years, it is nevertheless also true that our current total level of investment is still far below what is necessary to preserve and modernize our transportation systems. That is why system performance has continued to decline. I might add that increased investment is not enough in and of itself by bring about improved system performance. In addition, program reform is needed, as discussed in the Commission's Report.

3. Many technical and institutional questions remain to be answered before a VMT fee is ready for implementation. And once ready for implementation, the entire fleet of vehicles must then be outfitted with the appropriate equipment. Based on our hearings and expert input we concluded that it would take until about 2025 to reach full deployment, although we encouraged its deployment as soon as possible.

4. We estimated that the current annual level of investment is about $87 billion from all levels of government and the private sector. This is far below the $225 billion level necessary to preserve and modernize our transportation systems.

5. Our recommendations go far beyond "merely reorganizing existing programs." Our recommendations envision replacing today's 108 categorical programs with 10 performance-driven, outcome-based programs that would be focused on solving transportation problems in a mode neutral way. This is far different from today's programs.

6. Our detailed recommendations for streamlining the delivery process are discussed in Volume II, Chapter 6 (pages 6-8 to 6-13) of the Commission's Report.

7. Public transportation is an essential element of our national transportation system. The Commission recommended that the Federal Government be a full partner in addressing the looming transportation crisis. This includes public transportation.

8. Public transportation will be an essential element of modernizing our transportation systems to meet the challenges of the 21st century. The only way to meet the performance standards envisioned by the Commission is to greatly expand and improve our transit systems. As a result, we anticipate that public transportation would receive far more federal funding than it receives today.

9. The Commission Report includes an extensive discussion of public-private partnerships. We view them as part of the solution. If we are to close the transportation infrastructure investment gap, we must utilize all of the financing options available to us, including PPPs.

   We did disagree, however, with some on the Commission who saw PPPs as the total solution to the nation's transportation problems. Frankly, we could not endorse this view. Moreover, none of witnesses or experts who appeared before advocated PPPs as the total solution.

10. We need more public funding. We need more private funding. We need more tolling. And we need new and innovative funding mechanisms. If we are to close the investment gap, we need to make use of all of the financing options available to us. It is not a question of which of these sources to use; it is a question of how to use them all in a sustainable way.

11. The detailed description of how NASTRAC should be structured is discussed in detail in Volume II, Chapter 6 (pages 6-29 to 6-31) of the Commission's Report.

12. The Commission viewed PPPs as part of the solution. That is why we recommended that Congress encourage the use of PPPs. But we also thought that it was important to ensure that the public interest would be protected when PPPs were used on the Interstate System. For that reason, we recommended that conditions be met in those situations.

    Some argued that there should not be any federal conditions placed on the use of PPPs. They argued for a laissez faire approach to pricing and leasing of highways by private companies, with few or any federal conditions to protect the national interest. The Commission could not agree to this "hands-off" approach. We felt that it was important to protect the public interest by imposing reasonable conditions on the use of PPPs on the Interstate System. Given what has recently occurred on Wall Street, the imposition of reasonable conditions to protect the public interest has taken on an even greater sense of appropriateness and urgency.

STATEMENT OF
THE HONORABLE MARY E. PETERS
SECRETARY OF TRANSPORTATION
SUBMISSION TO
HOUSE TRANSPORTATION AND INFRASTRUCTURE COMMITTEE
U.S. HOUSE OF REPRESENTATIVES
JANUARY 17, 2008

Chairman Oberstar, Ranking member Mica and Members of the Committee, I thank you for the opportunity to submit my statement for the record today.

Let me begin by saying, over the last 20 months, this Commission has met on numerous occasions and has engaged in wide ranging discussion in a serious effort to address the Nation's current and future transportation needs. I believe this time has been well spent and I value and appreciate the contributions by all of my fellow Commissioners. Although I fundamentally disagree with a number of central elements of the Commission's Report, that disagreement in no way detracts from my respect for my colleagues on the Commission. They are to be commended for their hard work and dedication in the production of the report.

While I am attaching the Minority Views Statement to my statement for the record, I would like to highlight the key reasons why I was ultimately unable to sign on to this report. As most are aware, America's transportation system has a serious and growing problem. The most important challenge we face is the consistent decline in transportation system performance and a fundamentally flawed investment strategy. Our surface transportation economic model is fundamentally broken and this failure is impacting our families, business productivity, distorting real estate markets and degrading our environment.

I was pleased that the Report recognizes the importance of the transportation system to our Nation's economic growth. The Report does identify that there is a need and opportunity to simplify, consolidate and streamline Federal programs and funding categories. I believe and the Report acknowledges more focused programs will deliver better results for the Federal taxpayer. I would also like to commend the Report for identifying there is a need for greater accountability and rationality in investment decisions. I strongly support recommendations to improve the targeting of investments through a greater emphasis on performance and outcomes.

Unfortunately, the Commission Report maintains a strong emphasis on status quo solutions at a time when I strongly believe that the country needs an entirely new transportation policy. A key recommendation of this Report is a massive 40 cent per gallon Federal gasoline tax over the next five years, with automatic increases every year thereafter tied to inflation that would more than triple Federal fuel taxes from current levels by 2018. I have testified before this Committee previously and have stated for the record the Country's transportation problems do not stem from lack of spending or from insufficient tax levels. In fact, it is precisely the ineffectiveness of traditional taxes and the politicized nature of transportation spending decisions that are themselves the problem.

In addition, I was also extremely troubled by several other recommendations in the Report. Among the most troubling proposals, the Report recommends: creating a new Federal bureaucracy outside the Executive Branch and Legislative Branch that will assume various central planning responsibilities; new Federal regulation limiting States' ability to attract the growing volume of private sector capital available to invest in the country's transportation infrastructure; a sustained Federal role that is not justified by any analysis of a legitimate national interest; and new Federal taxes on public transportation and intercity passenger rail trips. As I have stated before, federal centric policy will not solve our transportation problems.

I truly believe there has never been a more exciting time in the history of surface transportation. We are at a point where meaningful change is not only conceivable, but actually being implemented in various parts of the U.S. In order to ensure that the pace and scale of this bottom-up reform movement increases, Federal transportation programs should be re-focused on two basic objectives. First, we should reward, not constrain, State and local leaders that are willing to stand up, acknowledge failure and pursue fundamentally different strategies to financing and managing their transportation systems. Second, the Federal government's investment strategy should emphasize the interstate system and other truly nationally significant transportation investments based on clear, quantitative parameters, not politically contrived ones.

Ultimately, the Commission Report chooses to take the path of higher taxes, more wasteful spending, more congestion and greater pollution. I believe there is a better path to take and wiser decisions to make. Again, I thank this Committee for allowing me to submit my testimony and I look forward to working with you.